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East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

No. 2423



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DEPUTY MINISTER CALLS FOR FULLER USE OF SET OF MEASURES

Prague HOSPODARSKE NOVINY in Czech 27 May 83 p 1

[Article by Dr Jaroslav Vaverka, CSSR deputy minister of metallurgy and heavy engineering: "Opportunities of the Set of Measures Not Exhausted"]

[Text] We have been taking care of the tasks of 1982 in the department of metallurgy and heavy engineering while being aware that at the same time it is necessary to create conditions for implementing those plans which correspond to the following years of the Seventh 5-Year Plan, and that it is our duty to accelerate the dynamics of our national economy by fulfilling and overfulfilling these plans.

Even though it was necessary to keep overcoming operational problems brought about by both external conditions--when room for export, particularly for export of machinery and installations, has been narrowed down, because the volume of investments in both capitalist and socialist countries is being restricted--as well as by internal factors, particularly by limited availability of sources of energy, one can conclude that the organizations of this department were equal to the tasks of last year. Even though the production rates were lower due to the planned decrease of metallurgical production, the planned effectiveness of the production process was generally secured. The tasks of 1982 were exceeded in many indices. Generally speaking, one can describe as the main favorable feature the fact that successful efforts have been made to achieve a more balanced implementation of production tasks and deliveries, that the planned material inputs were maintained, and that in comparison with 1981 production efficiency has increased, particularly as a result of the growth of labor productivity and more economical handling of raw materials, materials, and energies.

However, the described favorable results are still not enough to talk about satisfactory implementation of the overall goals of the society, because the conditions of competition on the world scale keep getting harder. Although improvements have been made, we have a great deal to catch up in terms of efficiency of our economy, both in utilization of inputs of raw materials and energies, basic production funds, as well as in reduction of costs, increase of labor productivity per capita population, and mainly in

terms of our ability to export to those markets where our products (and their effectiveness) are commensurate with the competition. That is why it was determined during discussions of the departmental analysis of the plan fulfillment for last year that we have to concentrate particularly on better economic management of the principal and key enterprises in all VHJ [economic production units] of the department, that we must intensify the technical, technological and organizational development of the VHJ and enterprises subordinated to them, and to proceed with such investment development as would keep creating conditions for further increase of advantageous foreign exchange, continuous increase of labor productivity, adjusted own outputs, improved profitability of production field and of the effectiveness of fixed assets.

One of the factors which had a favorable effect on the fulfillment of the planned tasks in 1982 was the Set of Measures. During the second year of its application, the function of the plan as the basic instrument of management was consolidated further. Its allocation observed the prescribed limits, and the stability of the plan was increased, particularly by the fact that the purpose of its changes--which incidentally took place only on a limited scale in accordance with CSSR Government Resolution No 180/1982, or assignments made by the State Planning Commission--was to improve the process of satisfying the needs of the entire society and to increase the effectiveness of the economy. It was not merely a question of adjusting the plan to reality.

Experience gained with counterplanning was evaluated at a departmental seminar in 1982, and steps were discussed which led to an increase of its effectiveness in the preparation of the plan for 1983. The results of the proposals derived from counterplans which were adopted by the ministry and projected in the corresponding indices of the approved executory plan of the VHJs for this year are reflected particularly in adjusted own outputs properly related to wages and to the growth of labor productivity, and also in the planned profit with the corresponding application of the given norm to the computation of the funds allocated to the development fund.

In terms of adjusted own outputs, the adopted counterplan represents--in comparison with the allocation of the directive--an increase of Kcs 378.6 million, that is, an increase of almost 0.8 percent. With regard to profit, the increase amounted to Kcs 94.9 million in comparison with the allocated directive, which means the same increase of the assigned task of 0.8 percent.

As to individual VHJs, the largest share of acceptance of higher goals went to the VHJs of Chepos (1.32 percent increase of adjusted own outputs, 2.34 percent increase of profit), Hutnictvi Zeleza (Iron Metallurgy) (1.21 percent increase of adjusted own outputs, 1.15 percent increase of profit), and Kovohute (1.97 percent increase of adjusted own outputs, 0.86 percent of profit). Of the 96 production organizations of the department, counterplanning for 1983 was used by two-thirds of them, that is, by 63 enterprises.

Although the adopted overall results of counterplanning can be evaluated positively as a trend, one cannot overlook the fact that these were concentrated predominantly in the area where material stimuli are most effective, that is, in the area of adjusted own outputs. If that is so, then it will be necessary to seek ways to orienting the tested effects on this stimulus on other qualitative indices, for example, on the process of increasing the profitability of production funds or export assignments, where for the time being there has been no significant increase. The situation is also similar with regard to the growth of productivity through decreasing the number of workers.

Active effects of the financial plan on the level of material plans also continued to increase last year. The increase of effectiveness was more intensive in those VHJs where the corresponding parts of the plans were interrelated right during the preparatory stage of the plan proposals, as compared to those areas where it was necessary to deal with disproportions only in the course of the next planning process or only during the implementation of the plan (such as for example in the Metallurgy of Iron VHJ).

Therefore, it is absolutely necessary to make sure that the interrelationship between the financial plan and the material parts of the plan, material and energy inputs, as well as delivery assignments be taken care of at the level of the central organs as well as VHJs right at the intermediate stage of planning. During the second year of implementation of the Set of Measures, the effectiveness of the plan increased further in a number of VHJs in terms of utilization of material, energy and manpower resources, particularly in those areas where the goals of the financial plan were projected consistently in the system of norms. However, on the other hand, there continue to exist VHJs (for example, the Ceskoslovenske vzduchotechnicke zavody--Czechoslovak Technical Hermetic Sealing Works), in which efforts have failed so far to bring key assignments of the financial plan in their modified form all the way to individual internal units of the enterprises. The result was that no degree of relationship between the enterprise khozraschet and that of the internal units was achieved, as it was done basically on the whole in the relationships between the khozraschet of the VHJs and of the enterprises.

The system of economic instruments established by the Set of Measures proved to be effective. However, in some areas it was also necessary to intervene directly in order to obtain positive results. For example, to reduce the volume of unfinished construction work, to bring about the desirable development of reserves, and so on.

Rationalization of the consumption of metals in the implementation of the state target program last year also had a stimulative effect on economic instruments, which was felt simultaneously with the effects of the broadly oriented direct management. The annual task of saving 208,610 tons of ferrous metals was exceeded by 26.9 percent. Planned savings of nonferrous metals in the amount of 3,644 tons was exceeded by 48.6 percent. The task of saving fuels and energy in the amount of 15,500 TJ [terajoules] was exceeded by 9 percent. This saving represents 2.76 percent of the consumption in 1981. According to the directives of the 16th Congress of the

CPCZ, a minimum saving of 2 percent is to be achieved in the course of the Seventh 5-Year Plan. In addition, the Tenth All-Union Congress of ROH [Revolutionary Trade Union Movement] outlined the task of reaching an additional 0.5 percent savings through increased initiative of the working people. These goals were reached in 1982.

The effects of the Set of Measures as a whole were intensified further in 1982, mainly because its key elements were applied more effectively. An unquestionable asset is the fact that greater progress was made in terms of decreasing the material and energy requirements and that the prescribed tasks were being implemented better than specified in the plan. The quality of the products increased, and further conditions were created for more effective quality control. Regulation of the development of wages became more intensive, and a series of measures were carried out within the framework of the program designed to increase the effectiveness of the wage systems. A favorable factor is the fact that the volume of unfinished investment construction work was decreased. In the production of accessories, spare parts, and so on, conditions were also created to reduce the tight situation between requirements and the resources. One of the positive effects should also be seen in the fact that the effectiveness of management within enterprises was intensified. Progressive forms of *khozraschet* within enterprises began to be used, participation of workers in management increased, and management regimes became more intensive.

However, it appears at the same time that efforts failed to relate the financial plan to other parts of the plan in all stages of the planning operations, and also to eliminate key problems in the relations between suppliers and buyers. Nor were effective steps taken in the system, as recommended by the Federal Ministry of Metallurgy and Heavy Engineering, to evaluate the effectiveness of the Set of Measures in 1981, in terms of completing the system of sanctions, increasing the effectiveness of the development fund, increasing the interest in getting foreign exchange, improving the work of the SBCs [Czechoslovak State Bank], and reducing administrative requirements of the management process.

In addition to these measures, it would be also useful to improve the interrelationship of the plans right at the level of the state plan, and to achieve a higher degree of stability by using reserves, to evaluate the concept of the reserve fund for the purpose of increasing its effectiveness, and finally to switch from two-component wage control to a single-component system. It will be also necessary to carry out other recommendations, which have been included in a departmental evaluation of the effectiveness of the Set of Measures for 1982, recommendations which the ministry is not able to take care of within the area of its own jurisdiction. In our department, measures will naturally be taken, to increase efficiency, as it ensues from an analysis of the plan fulfillment for 1982 and from the key tasks of providing for the plan for 1983.

The principles of the Set of Measures tend unquestionably to intensify the development of the economical aspects of the national economy. Also, experiments which have been decided upon for 1983 on the basis of CSSR Government Resolution No 1/1983, seek to improve further the system of planned management. However, it appears that we will have to continue in certain cases to stimulate the implementation of the plans not only by using economic instruments, but also by taking specific direct actions in management, for example in the area of investments, reserves, balance accounting of resources and requirements, and so on, and that it will be useful to evaluate the opportunities and the results of the effects of the regulations contained in the Set of Measures always in a differentiated way, depending on the actual material conditions. This should lead not only to conclusions about the accuracy of the overall orientation of the Set of Measures, but also about the concept of its further development.

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BETTER MANAGEMENT THROUGH INTENSIFICATION

Prague NOVA MYSL in Slovak No 4, 1983 pp 34-44

[Article by Rudolf Krc: "Intensification of the Economy and Starting Points for Improving the Economic Mechanism"]

[Text] Orientation toward intensification of the economy has become the basic premise for economic and social development of Czechoslovakia at the present stage. This is pointed out both in the materials of the 16th CPCZ Congress and in the Set of Measures. Implementation of the Set of Measures for improving the system of planned management and its continued development strives to attain "clear-cut intensification, the improved efficiency and export capability of the Czechoslovak economy." Together with improved quality of all labor, with effective structural changes, primarily on the basis of accelerated and maximum utilization of research and development [R&D] and increased participation of the CSSR in the international division of labor, they also form the prerequisite for meeting the goals of the Seventh 5-Year Plan.

Such a combination of tasks poses the problem of intensification of the economy per se and its subsequent interlinkage with improving the economic mechanism that must provide for optimum effectiveness in meeting strategic and tactical goals in the area of economic and social development.

Delineation of intensification of the economy based on the productive force of labor, as defined by K. Marx, means that intensification of the economy cannot be tied only to the mass of labor value added or only to the mass of labor value added and labor contents of products. In analyzing value K. Marx wrote: "The extent of the value of a product would remain constant if the working time needed for producing it were constant. However, it changes with each change in the productive force of labor. The productive force of labor is determined by various circumstances, among them by the average level of workers' skill, the level of scientific development and its technological application, social combination of the production process, extent and effectiveness of the means of production as well as natural conditions."

In addition, labor productivity which is the result of the productive force of labor from the societal viewpoint "also increases through saving. That includes not only savings in the means of production, but also elimination of all useless labor."

From the viewpoint of intensification of the economy as a process for increasing the productive force of labor, of particular importance today are primarily those processes already called by K. Marx as the natural forces of social labor. In his analysis of capital he pointed out: "Productive forces springing from cooperation and division of labor cost capital nothing. They are natural forces of social labor." Intensification, improvement must, therefore, concentrate primarily on existing forms of cooperation and division of labor, not only at the level of basic production units--enterprises, plants, production departments, lines, workteams--but also at the level of the entire national economy and today even at the level of the entire socialist integration grouping. And that can be done without increasing the mass of labor value added and labor contents of products.

Even though development of science and its technological application is the most effective path of intensification, this is among the more demanding approaches or components of intensification of the economy, but they still contain processes and phases, which act "at no cost," as natural forces. This involves specifically the phase where there is formation of the orientation of scientific research and of technological policy. For this phase, thus, "the greater the extent of productive capacity of a machine as a tool, the greater is the extent of its cost-free service in comparison with cost-free service of the tool. In large-scale industry, man learns to leave the product of his past labor to wield its mass effects as a natural force." This means in specific terms that intensification as a process of improving the efficiency of the productive force of labor also materializes in orientation of R&D policy, in formulation of scientific research plans in research institutes, individual production enterprises, etc. It calls for orientation toward creating technology, innovation, the use of which is not limited to a single product, to a single production process, but which affect an entire series of products, production processes, branches, namely, those which expand the productive efficiency of innovation. This includes at the present, e.g., microelectronics, robotization, biologization, etc. This aspect also plays a part in deciding the orientation of investment policy, particularly in a period of limited resources.

Intensification as a process for increasing the productive force of labor by means of R&D progress, realized through modernization or increased investments, is linked to "progressiveness," the order sequence of intensification processes, because "as labor productivity increases at points of origin of capital assets--and it is constantly developing with the continuous flow of science and technology--then the place of old machinery, instrumentation, etc., is taken over by more efficient and, in view of their efficiency, cheaper means of labor." Orientation of investment activities in connection with the orientation of scientific research and technological progress in branches producing the means of production is then of importance not only to that branch and the period directly concerned, but also in subsequent followup branches, productions and periods, because "each introduction of improved methods, etc., affects almost simultaneously both supplementary and functioning capital. Every advance in chemistry multiplies not only the number of useful substances and the methods for utilization of substances already known and, thus, with the

growth of capital, it also expands the sphere for its expenditure." It already follows in a differentiated manner specifically the orientation of intensification, be it in lower forms less demanding on resources or in more demanding forms, and give preference specifically to those orientations of research or modernization and development of those productions which expand the sphere of production.

It is true that better orientation of scientific research and, consequently, of investments also has an additional aspect, an additional effect, as "it at the same time teaches how to inject into the circulation of the process of economic renewal excrements of the production and consumption process, generating thus a new substance for capital without its previous expenditure. Science and technology, the same as expanded utilization of natural riches thanks to a mere increase in manpower exertion, create the capability of functioning capital to expand independently of its given size. They affect at the same time that part of the original capital which entered the stage of its renewal. Capital, in its current form, is taking credit for social progress which was achieved on the backs of the older form."

This conclusion of Marx applies not only to the capitalist form of production, but also to the socialist form of production. Just as today we put particular emphasis on social priorities, preferences, then among the preferences backed up by the economic mechanism belong also technologies producing no waste, or technologies and techniques which promote utilization of secondary raw materials.

Another process that comes within the scope of intensification is utilization of the extent of production, because "whether products are cheap that depends, all things being equal, on productivity of labor and the latter depends again on the extent of production." However, this again does not involve a simple problem of mere expansion of production or increases in the series produced in all enterprises, VHL [economic production units]. Here there is also need for a differentiated approach, because in many productions the problem of optimum size of production (not only technical, but also economic) is not always directly, immediately tied to expanding the extent of production. Often even a small scale of production provides for increases in labor productivity which are often more effective than large ones. Increases in the extent of production call, as a rule, for additional input of labor value added and labor contents in products, just as in some productions it applies that "it is sufficient to just make a small change in the quantitative grouping of the integrating parts of social capital."

Another significant element of the intensification process is the problem of savings. Intensification does not mean only savings achieved through R&D progress demanding on resources, but also savings in already functioning labor value added and labor contents of products achieved without new investments, primarily by elimination of all idle labor. It specifically means that improved organization of the production process must also be used to limit and eliminate production for stockpiling, "idle inventory," production which is difficult to market, unneeded supplies, rejects in production, but also "stockpiles" of uninstalled machinery, superfluous imports, etc. Also of no

less importance is reduction and elimination of superfluous functions and posts, changes in unwieldy organization, etc. In commenting on the superfluous nature of some posts and functions K. Marx said that "they now appear indispensable, but of themselves they are superfluous." It is just this seeming indispensable appearance that masks their factual uselessness.

From the viewpoint of demands of intensification on resources, application of the principle of equal distribution of labor among all members of the society is also of great importance, because "from this viewpoint the absolute limit of worktime reduction is universal distribution of labor." However, correct application of the principle of equal and universal distribution of labor also calls for distribution of labor according to the relevant qualification and capability of workers. Thus from this aspect, it involves intensification in the area of manpower distribution, which can materialize without increasing the mass of functional labor. That means in a situation identical to the current limitations on manpower, or a situation where no sizable increments are expected.

However, not even the specified processes fully exhaust the concept of intensification, because it includes only internal processes and conditions of the economic renewal process given by the productivity of the used social labor. Herein also belongs intensification in the area of external economic relations, first of all an improved, more accomplished foreign-trade policy "because the law of value in its international application becomes even more modified by the fact that more productive national labor is also considered to be more intensive on the world's labor market, as long as competition does not force the more productive nation to lower the price of its product and its value." In other words, processes that make it possible to sell the national product at foreign markets better, more speedily and with a time lead must be considered to be a part of intensification. On the other hand, a failure to gain these advantages cannot always be considered to be just a result of poorer utilization of labor value added and labor content of the national product. I am thinking of the often-used argumentation that lower per-kilogram prices of some Czechoslovak products achieved on some markets are an indicator of the technical level of our products. Only thorough analyses can show what role is played in this by various discriminatory duty tariffs which lower the prices of Czechoslovak products in particular (and, thus, are not an indicator of technical level), and what role is played by shortcomings in the work of foreign-trade organizations.

Without claim to completeness, just the mentioned intensification processes that call for no investments or are less demanding on resources induce the idea of the differentiation of the economic mechanism which is given by the essence of intensification itself, if it is to play an active role in orientation toward intensification.

The strategy and tactics of intensification, especially its position in the strategy and tactics of economic development as a whole, is important to the orientation of the economic mechanism toward intensification. Our takeoff point is the premise that the strategy of intensification of the entire economic renewal process is inseparably connected with and subordinated to the

strategy for implementation of R&D progress. The latter, in turn, must be a direct, decisive part of the strategy for economic and social development of the entire socialist society.

The highest strategic objective of the socioeconomic development of socialist society is maximum satisfaction of the constantly increasing material and cultural needs of members and of society leading toward an all-round development of man. Society is approaching this strategic goal gradually by its economic activities, in a constantly increasing extent. However, this objective is dynamic in nature. It then follows that with the development of society it is constantly modified and pushed even higher, a fact that must be matched by a flexible strategy for attaining the main objective as it keeps changing and becomes more precisely defined, both in relation to the degree and form of attainment of the objective and in relation to the changes in endogenous and exogenous factors as well as those of the instruments which economic policy has at its disposal at the relevant stages of its development.

All changes in strategies and tactics are mutually interconnected, they do not act in isolation, but in close interaction they lead through changes in tactical objectives to modification of the individual components for attainment of the key strategic objective. The key strategic objective, given by the basic economic law of socialism, undergoes no changes in its essence, but there occur changes in its implementation and degree of attainment in the forecast period.

To outline the strategy and tactics of intensification, consideration must be given not only to the important fact that intensification is a factor of implementation of the strategic objective, that it is subordinated to that objective, but also to delineation of the correct relation between the starting point and the objective of economic development in a certain period. In this context, of particular importance is the stage of transition from one state to the other, because here the decisive--even though not exclusive--position accrues to intensification on the basis of scientific-technological development. This includes diversification of technology or, on a wider scale, of intensification factors already known worldwide, as well as creation of new revolutionary and evolutionary accomplishments of scientific-technological progress. Utilization of what is already known worldwide is usually connected with lower preproduction costs, but with higher foreign-exchange demands, lower risk and a shorter time needed for implementation. New discoveries, on the other hand, offer higher potential progress, but take longer between origin and implementation and often pose a greater risk. The strategy of intensification must weigh the advantages and disadvantages of both of them. The role of the economic mechanism is to accelerate transition of the existing and known highly advanced and economically favorable technology into the production sphere, contribute to improved adaptability of the economy and help to meet the goals of long-term economic development. While the first two tasks are of decisive importance from the short- and medium-term viewpoint, the third is of greatest importance from the long-term viewpoint.

One of the key tasks of intensification is to change the structure of the national economy so as to enable it to better fulfill its functions in the

dynamic process of development in pursuing the strategic objective. Just as in the strategy of economic development, in formulation of the strategy for intensification there are in essence three possible alternatives.

In the first alternative, intensification and, primarily, its main component based on scientific-technological development changes the initial structures of the national economy and provides for a transition to new structures (from sectorial down to product-oriented) by revolutionary or evolutionary changes (innovations) of the technoeconomical level of selected production processes (selective R&D progress, selective innovation). The criterion for selection of priorities is in the first place attainment of the highest technical and economic levels and attributes and the possibility for attaining or maintaining a leading position in the world markets. Innovations in this area of priority productions then vary in kind: maintenance and further development of this high level, of a leading position, expansion of the production of the products concerned, lowering of costs, transfer of technical and technological findings from abroad in this area, investments for modernization, etc. Even though in specific conditions it can involve a substantially smaller extent of such products and productions, it can substantially affect the profile of the entire economy. Another criterion for selection of priority productions affecting the development of the structure of the national economy is selection of products and productions based on the domestic base of raw materials and products, or productions that represent maximum valorization of the national product, even in cases when it does not specifically involve the most technically advanced products. This can apply in the case of productions that do not adequately meet the demand of foreign markets (which can also involve many conventional products). A selective strategy for intensification (scientific-technological progress) must provide for these products and productions priority resources and transfer of foreign techniques and technology.

An unequivocally selective approach is impossible to imagine without systematic limitation, down to liquidation of many nonpriority productions. A selective approach puts increased demands on the technoeconomic level of the selected productions that must generate adequate means needed for balancing (imports) in the area of attenuated productions. The economic mechanism must be adapted to both of these aspects in its full extent.

This approach has as a prerequisite a considerably wider development of international socialist integration, both in establishing and improving top productions, in distribution of production programs, cooperation and specialization of the national economy complexes of individual countries, and in providing for a flow of products in the priority or limited-production groups. Alternatively selected productions which form the profiling component of the strategy often call for great concentration of investment means. The risk posed by this type of strategy--particularly if it is based primarily on R&D or overall development derived from it--is relatively high. Relatively high are also the requirements on flexibility and adaptability of the economy, its capability to react to significant changes in the overall worldwide economic situation. Risk-sharing, be it within the entire integrational grouping or within the given national economy complex, can be divided among the individual economic subjects. In addition, this type of strategy must for the

same reasons envision the need for relatively high reserves. However, on the other hand, it makes it possible to stay abreast of the top world standard in selected productions (or products) in the given country, to achieve an accelerated rate of growth and improve with relative expediency the effectiveness of the entire process of economic renewal and development.

A second, essentially also extreme, approach of strategy and tactics to intensification on the basis of technological progress as well as of the strategy and tactics for implementation of structural changes to which intensification must ultimately lead (but also the concept of economic development of the entire economy), is represented by implementation of a nonselective development of productions and of products, which means implementing intensification of production in its full extent by both investment and noninvestment approaches. In comparison to the first strategic approach, it represents a diffusion of means, a transition to the intensive type of economic renewal and development in its full scope, but one attainable only in a longer period of time. In a series of stages, particularly in the first stage, it actually involves a path toward preserving the existing structure of the economy, admittedly at a higher level. Its advantage is less vulnerability of the economy and, eventually, lowering of costs. But from the long-term strategic viewpoint--particularly in view of the existing problems of limitation of resources and the existing problems attendant to the contemporary structure of production--it also represents a loss in the rate of technological progress in the still leading developmental sectors of production and, in its ultimate consequences, a slowdown in the rate of improving the economic effectiveness of the economic renewal process.

Under the current situation in almost all socialist countries, the most realistic approach appears to be formulating and giving preference in the area of R&D, intensification, structural changes and in development of the economy as a whole to a third approach, a combined strategy, a transitional type strategy which represents in essence a combination of selective and nonselective economic development as well as scientific-technological progress. It means, on the one hand, assigning priority to development of those productions where the economy attains the highest technoeconomic criteria, as well as where it has its own primary or secondary sources and where national product achieves maximum valorization and, on the other hand, productions that attain only an average level, but which are indispensable for meeting the growing productive and nonproductive demands also expanding in regard to available selection and where conditions have not been created for their replacement by imports. R&D must be concentrated into these groups. Other productions must gradually be limited and some even liquidated.

In following this approach, fewer resources are concentrated into the most viable productions, less effective productions are liquidated at a slower rate, and the time for achieving transition to peak level of other productions becomes protracted. At the same time, these also increase the risk that some of the resources for scientific-technological progress will be devoted to branches which will later turn out to hold little promise. On the other hand, however, this strategy better meets the actual initial conditions, follows up on initial structures which it modifies, even though at a slower rate. It also

represents smaller risks. By means of all-round intensification through a noninvestment approach it makes it possible to gradually intensify at a smaller scale even productions where cutbacks are contemplated and in that way mobilize resources for intensification of selected priority productions. In this combined strategy, tactics can be better adapted to conditions as they arise and still remain oriented toward achieving the key strategic objective and the partial goals derived from it. Scientific-technological progress can be more easily promoted also by transfer of "cheaper" technology from abroad and successful use can be made of potential economic cooperation on a wider scale.

Improving the economic mechanism from the aspect of intensification is a task calling for dealing with it on both the strategic and operational plane.

At the strategic plane, the key role is played by a comprehensive goal-oriented approach. With it, the development of the national economy benefits by long-term promotion of the development of selected priority productions, by the development of national economy complexes (fuel and energy, agriculture and food, the complex of economizing with manpower, the complex of valorization of raw materials, etc.) and by planning and control of entire intensification, cross-sectional processes (program for modernizing the material and technological base, program for development of science and technology oriented in accordance with the selected strategy, program for innovation of products, program for developing the infrastructure, program of structural reorganization and program of social development). These programs gradually become mutually intertwined in time and space within the long-term concept for development of the national economy. The point is that part of the economic mechanism support by its long-term planned nature the implementation of these long-term programs. The requirement is that it have maximum stability and fully promote generation of resources directly in enterprises.

At the medium- and short-term plane it is of importance that the economic mechanism be oriented toward operational acquisition and mobilization of individual resources and means in keeping with the given situation along the chosen path and implementation of the strategic objective. Moreover, from the medium-range viewpoint there is also a need for the economic mechanism to stimulate transition to a long-term strategy--gradually creating conditions for structural reorganization of the economy. At the short-term plane, the operational and tactical plane, the economic mechanism should through expedient and flexible changes of individual instruments, primarily through viable changes in the individual economic-control criteria--norms and tariffs--help accelerate less demanding intensification processes, penalize any infraction against economy and failure to use available unused resources so that inadequate intensification becomes reflected in making conditions increasingly difficult and, conversely, stepped up efforts and successful intensification provide an additional stimulus for the enterprise, i.e., that the enterprise have a substantial incentive for achieving effective intensification.

From the essence of intensification and its position in the strategy of economic development derives the need for forming groups of instruments of the economic mechanism and their differentiation into: instruments used for attaining strategic tasks and affecting higher elements of management

(sectorial authorities); instruments used to promote adaptability of the economy, such as various medium-term stimulative factors adapted to 5-year periods with a considerable extent of effects on the median elements of management; instruments functioning as accelerators and decelerators of development, oriented toward the enterprise sphere and limited to short-term validity with a capability to react to the momentary economic situation.

From the nature of intensification, it also follows that it should not be based only on R&D progress, or on technological development and the latter, in turn, in innovations of a higher order connected to investments. It is just these intensification processes that are of a noninvestment nature that under certain economic situations of "shortages" or "strict limitations" become the most decisive instruments. In other words, intensification can be implemented in stages.

In the first stage, the first phase of intensification efforts must be developed primarily toward comprehensive utilization of existing resources (raw materials, fuels, energy, production installations and manpower) without investments. An improved, better organized, more specialized, more exacting and creative utilization of existing resources and factors in itself can bring about considerable savings in worktime and resources, and accelerate the rate of economic development. In intensification processes of this type it is possible to make use of economic instruments which with their progressive or regressive rates and extents can stimulate interest specifically in the enterprise sphere.

In the second stage, it is envisioned that intensification be focused on completing the acquisition of production systems and synchronization of individual capacities so as to improve the utilization, output capacity, more economic and effective management of the used resources, to change the technoeconomical attributes of the turned out production and its quality while at the same time forming the prerequisites for a long-term technological renewal and structural reorganization of the national economy. At this stage of intensification, a substantial role should be played--in addition to partially variable economic instruments--by instruments generated through long-term plans and concepts.

The third stage of intensification represents technological renewal and structural reorganization themselves (modernization and expansion of production capacities), reorientation of the productive potential on selected productions. It is only this stage, requiring the resources accumulated in the preceding two stages of intensification, that is fully tied to scientific-technological progress of an investment character. Its results are potentially substantial increases in efficiency and systematic structural reorganization.

A combination of these three stages--degrees of intensification--supported by the entire economic mechanism promotes chronological progression (applying particularly to individual enterprises and production sectors), as well as the fact that the first two stages create the prerequisites for the third stage of intensification (at the level of the national economy). However, in the overall strategy this calls for identifying productions, production sectors and

branches, in which the given type of intensification is to be accomplished. It is equally important that individual instruments of the economic mechanism, from plan to khozraschet [cost accounting systems] instruments, be oriented toward supporting those goals.

Division of labor is of equal importance in formulation and implementation of the selected strategy. The task of central control authorities is to formulate the concept and strategy of long-term economic development and the relevant strategy of intensification and strategy of scientific-technological development that promote structural changes. Central control authorities formulate and implement the overall concept of development, long-term comprehensive programs, select the most suitable strategy, designate priority productions, formulate a uniform scientific-technological policy and orientation of the economic mechanism which mobilizes all intensification factors in support of achieving the selected approach to the goal in such a manner as to promote balance of the national economy as well as balancing of key proportions with the aid of unused resources of the national economy. Operational control of intensification processes--even those based on investment-oriented technological progress--within the framework of the selected strategy should be fully within the jurisdiction and responsibility of the enterprise sphere controlled by the economic mechanism.

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RESEARCH AND DEVELOPMENT IN CURRENT ECONOMY

Prague NOVA MYSL in Slovak No 4, 1983 pp 45-55

[Article by Eduard Sarmir: "Scientific-technological Progress in Current Economic Development"]

[Text] Improvement of technology which constitutes technological progress is a process permanently linked up with the development of productive forces, with pushing their productive capacities to an increasingly higher qualitative and quantitative level. Technique itself is usually seen as a materialized skill or some other propensity of people for work, based on empirically or scientifically discovered laws of nature. Its carriers are capital assets as well as the technology of their productive effects actually functioning in the production process. However, technological progress as a process cannot be reduced merely to the moment of practical application of a technical novelty.

Technological progress includes the entire cycle of origination of new technology or technical improvements (research and development [R&D] phase), its application in production (innovation phase) and its diffusion in the economy. The process of technology improvement encompasses in its progress the sphere of social consciousness as well as of social existence. However, it becomes a real force of economic development in its material form, in the form of new or modernized capital assets, technological processes and consumer products which also reflect the accomplishments made in the technical sphere. In this concept, technical progress prevades the entire process of economic renewal, penetrating into its internal structure. It is the motive force of its dynamic as a whole

Technical progress as a process of increasing the productive efficiency of productive forces depends in its development on the laws of the motion of mass (as technical progress itself represents utilization of findings made about these laws to the benefit of development of technology and, thus, also of production), as well as on societal conditions for development of production, but first of all on general and specific economic laws finding application in a given socioeconomic formation. Developmental laws of technical progress represent in this manner the dialectical unity of natural, technological, social and, particularly, economic laws. Of key importance here is the general law of the economy of time: the time saving per unit of utilitarian effect of a certain activity as opposed to the manner in which it had been performed

previously is the key motivating principle in striving to improve such activity. Along with it, technical progress also generates new types of utilitarian values--carriers of this economy of time, on the one hand, and inducing and meeting new needs, on the other hand--acting in the direction of their diversification. Economy of time per unit of utilitarian effect and diversification of utilitarian values can thus be characterized as the economic substance of technical progress.

However, the tendency toward improving the economy of time per unit of utilitarian effect, which is the prime motive for technical improvement, does not progress in a direct line. It is connected with the objective effects of the entire complex of natural and social laws which affect the course of technical progress. Thus, development of technical progress appears as a process of permanently recurring contradictions the overcoming of which--again on the basis of new technical solutions--pushes the effort for economy of time into newer and increasingly more difficult positions. A certain direction of technical progress, even though it strives primarily to achieve economy of time or improved meeting of needs through certain utilitarian values, can eventually also lead to economic losses, eventually even to erecting objective barriers to continued economic development. Thus, the overall economic movement at the level of the national economy brought about by technical progress is not constituted only by processes which objectively lead to ever-increasing time savings in production, even though they remain the core of efforts for technical improvement which constitutes their source and toward fulfillment of which they are constantly oriented. Technical progress must be understood as a process of systematic overcoming of contradictions between individual objective laws which are reflected in it (contradictions that in many respects were caused by technical progress itself) and the result of which must be a systematic increment in the economy of time per unit of utilitarian effect.

Particularly to be pointed out among the basic contradictions should be the contradiction between growing needs and limited resources (which means overcoming the weak points of the output capacity of the existing technology--this contradiction being interpreted as an elementary contradiction on which depends the necessity for technical progress), a contradiction tied to a reduction in available natural resources (their natural limitation) and the increasing demand for them (which technical progress itself deepens, e.g., in extraction of fuels and ores), between a certain directioning of technical progress and environment, as well as the contradiction between both components of the economic substance of technical progress--economy of time and diversification of utilitarian values). Other significant contradictions are the divergent relation between technical progress and the qualitative readiness of manpower. A significant group of contradictions is formed by contradictions between technical progress and societal determinants of the development of productive forces.

Ascendancy of the R&D revolution represents a qualitative shift in the course and in the economic effects of technical progress. Science is becoming the key gnoseological source for improving technology. Technical progress is acquiring the character of R&D progress. New incentives for innovations that basically change the existing technology are springing up at an accelerated rate. The

frequency rate of innovations becomes accelerated. Considerable increments are obtained in economy of time per unit of utilitarian effect. There occurs a higher order of intensification of the economic renewal process, there occurs an unprecedented increase in social productivity of labor. Its increments are becoming the main source for the growth of national income. There is an accelerated development of new production sectors, the assortment of utilitarian values--with which production meets societal demands--is expanding, rapid changes occur in the technoeconomical attributes in the life style of contemporary man which, of course, have differing social consequences in the capitalistic and the socialistic social order.

Thus, the R&D revolution, as the decisive factor of continued socioeconomic development, brings to the fore scientific-technological progress. While economic calculation in deciding between increased production of a certain product on the basis of a quantitative (extensive) expansion of production capacities and on the basis of increased efficiency of existing capacities (through modernization) could formerly come out in favor of an extensive approach to growth of production, under the conditions of the R&D revolution quantity can no longer replace quality. Even under the assumption that availability of production resources is adequate, the intensive approach unequivocally appears to be economically more favorable, less demanding on sources, more effective in view of the ultimate results. Together with increases of a higher order in the economy of time, there has occurred a considerable acceleration in the diversifying effects of technical progress in the area of utilitarian values, a factor which directly affects a growing diversification of needs which production, if it is to be effective, must meet, as well as affecting the relative length of their service life before becoming obsolescent.

Failure to recognize these trends injected into this economic change by the R&D revolution objectively leads to lagging in the technical level of production and in potential effective utilization of the national product on the world's markets. The slow subsequent progress in this area only deepens this lagging and undermines the potential for stepping up the dynamics of economic development of a given country.

Throughout the period of building of socialism the CPCZ was creating the prerequisites for systematic improvements in the technical level and effectiveness of our production. There occurred formation of a strong R&D base which in regards to its research capacity, in per capita computation, ranks among the top in the world. The CPCZ Central Committee Plenum of February 1957, devoted to problems of improving the effectiveness of the national economy, underlined the role of technical progress in meeting this task. The need for transition to a line of economic development favoring scientific-technological progress as a factor of development appeared then under the conditions of socialist Czechoslovakia the more urgent, the more the growth of the national income was already encountering relative limitations in the ability to mobilize material and human resources. While throughout the sixties this task was pointed out as being foremost, this line failed to be systematically implemented due to the crisis phenomena appearing in our society. Only after restoring the leading role of the party in our economy did

there occur formation of a strategic line toward improving efficiency and accelerating R&D progress in our economy interpreted as an integral part of the program for building an advanced socialist society promulgated by the 14th CPCZ Congress. On the basis of the assessment of the results achieved in our economic development, the limitations of our economic resources as well as the new requirements on economic development connected with the R&D revolution the 14th CPCZ Congress pointed out R&D progress as the only alternative for our continued economic development and a condition for success in our competition with capitalism. On the basis of these resolutions, the CPCZ Central Committee Plenum in 1974 worked out the concept for accelerating R&D progress.

The seventies were marked by pronounced changes in the world's economy--emergence of an extraordinarily severe cyclical crisis of capitalism, unprecedented increases in the price of crude oil and other sources of energy and raw materials and the subsequent acceleration of the already strongly manifested inflation. A certain role in this price development was played also by the increasingly evident limited availability of the relatively cheapest traditional crude-oil deposits as a manifestation of the previously mentioned contradiction between increasing technological efficiency of extraction methods and the objective limitation of resources.

This new situation served only to emphasize the limited capability of our production to compete on foreign markets, caused by the technological obsolescence of our production and by the high demands of our production on energy and raw materials. Calculations show that only about 20 percent of our products meet top standards, our production consumes 20 to 40 percent more material resources per unit of national income than that of advanced capitalist countries, our industrial production also being more demanding on labor by up to 50 percent than those countries. Thus, in comparison with technically advanced foreign countries, the economic results achieved in our economic renewal process are considerably lower, which results in our having to pay for imports of an identical volume of substrates by considerably higher exports, which could not but have an impact on supplies for the domestic market and the overall dynamics of our economy.

A significant shift also occurred at the opposite end of the economic renewal process. The socialist state, following the basic economic law of socialism, provided through a goal-oriented development of the economy for a continuous increase in the standard of living of our populace. However, this involves not only the quantitative aspect of consumption. In addition to the latter, there is considerable diversification, an increasing interest of the populace in the so-called "nonessential," "luxury" and higher quality products and services which become a part of the consumption basket of modern man. This creates demand for utilitarian values which production and trade must provide for a balanced and systematic development of the national economy.

In this way, the Czechoslovak economy finds itself in the eighties in a situation of decreasing energy and material inputs into the economic renewal process with a lower comparative effectiveness which limits the possibilities for obtaining these sources from abroad, whereby the sources of manpower, due to the lower substitutional effect of R&D progress, are also limited.

Substantial intensification of the economic renewal process which with the ascendancy of the scientific-technological revolution is becoming an objective necessity, is becoming even more urgent due to the effects of the newly formed external and internal conditions. For that reason, the 16th CPCZ Congress emphasized the inevitability of more systematic implementation of a long-term economic strategy of highly efficient production and quality of all labor.

Thus, our economic development in the eighties will be progressing under stagnating to diminishing material and energy inputs into the economic renewal process, under essentially diminishing possibilities for adding manpower, under stagnating volumes of investments, whereby, even under the given conditions, the key objective of our efforts will remain to quantitatively and qualitatively meet (in quality and assortment) the changing needs of the populace. It is obvious that it involves qualitatively new and demanding tasks of socioeconomic development which the party stipulates as its goal in the coming decade, especially in view of the fact that--in addition to the deteriorating external economic conditions on the capitalist markets connected with the deepening crisis of the capitalist system--the most advanced capitalist countries are developing unprecedented efforts toward deterioration of the international atmosphere, spinning anew the wheels of feverish armament and adopting openly discriminatory measures against socialist countries with the intent of undermining their economic development and retarding their progress on their way to building socialism.

Acceleration of scientific-technological progress and improving the level of our production gradually toward the highest standards is the long-term approach toward achieving a reversal in the development of the effectiveness of our economy. It is a lasting prerequisite for achieving a high degree of intensity in the progress of our economic renewal and an effective way toward acquisition of those material and energy sources which we need for achieving an accelerated dynamism of our economy. This fact was specifically pointed out by the 16th CPCZ Congress when it termed science and technical progress to be the determining factors of intensification and the most potent resource for increasing the productivity of social labor.

Implementation of this line is no simple matter. It involves not only measures that can be implemented in shorter time spans--improving the technical and qualitative features of products under the given technical conditions (i.e., without changes in the existing logistical base), but also more basic interventions in the structure of production (connected with introduction of new viable productions calling for construction of new or refurbishing of existing capacities) and an overall reorientation on a new technological base commensurate with the requirements of the scientific-technological revolution. These measures are of an objectively long-term character. Making these intensification effects of the short-term, but especially of the long-term, measures pay off is connected with overcoming inert fields in the logistical base, but also directly in the economic mechanism of our socialist society.

The high demands of our economic renewal process on materials and energy appear at the present to act very strongly as an inert factor. They can be termed as the immediate cause for the slowdown in the dynamics of our economy, naturally

with the awareness that the primary cause is the decreasing effectiveness of the economy as a result of slow implementation of scientific-technological progress. If we consider that obtaining an identical volume of these resources from abroad calls for a substantially larger and increasing part of the generated national income than as the case in the past, the primary task becomes maximum limitation of the consumption of these resources in production.

The latter can be achieved in one of three possible ways. The first is attainment of direct, absolute savings of energy and materials in production by mobilizing unused resources yielded by various technical and organizational measures, introducing a strict economy drive and eliminating cases of considerable wasteful practices. The second is implementation of a goal-oriented structural policy of systematically getting away from production highly demanding on materials and on energy. The third, possibly the most important and most promising way, is increasing the technical level of our production, both in products and in the technology of their production. In other words, improving the technical attributes and utilitarian properties of production will promote achieving a higher valorization of the initial raw material.

The ways to achieving savings of energy and materials and overall efficiency must be seen as interconnected processes. While at the present, e.g., the extraordinarily important task appears to be attainment of growth in national income with simultaneous stagnation of energy and material inputs, whereby the plan specifies by directive the assigned tasks relevant to savings of these resources which in their wide scope represent an absolute decrease of their consumption in production as compared to the preceding year with an increase in production, the effort for its attainment cannot be reduced to only the so-called economy policy. It is even impossible to accept savings of energy and materials made at the expense of the technical level and quality of production, or at the expense of its overall effectiveness. The decisive factor thus remains--even under current conditions--the economy of time per unit of utility; in other words, the level of social productivity of labor. Savings of energy and of materials (though they are of extraordinary importance at the present) cannot contradict overall advances in the area of effectiveness of our production.

A similar demand can be made in regard to the structural changes that we are currently undertaking. However, implementation of structural changes which, in addition to the mentioned lowering of the demand on energy and materials, is to promote an accelerated increase in the production of those branches and sectors tied to R&D progress,* it does not mean that the technical level of production should stagnate in "cutback" sectors. In the interest of the socioeconomic goals of the socialist society, R&D progress must occupy a priority position in the era of R&D revolution.

* The extent of these structural changes is indicated by the goals of the Seventh 5-Year Plan to increase production in the metal working industry by 33-35 percent, in the electrotechnical industry by as much as 50 percent, whereby total industrial production is to increase 18-20 percent.

The often accentuated all-round applicability of intensification which is characteristic for this period means that it must be implemented in every productive and nonproductive sector. Since it is known that the latest accomplishments of scientific-technological progress make possible 10-fold and, in some production sectors, even 100-fold increases in labor productivity, there has been little emphasis on the fact that these gains in economy of time at the level of the national economy are multiplied by the sum of innovations of a lower order which are a followup of the impetus provided by innovations of a higher order in viable sectors. While each of these small innovations does not represent any substantial increase in efficiency, their mass occurrence leads to a relatively high summary effect.

All-round intensification creates the prerequisites for systematic increases in efficiency in two directions. On the one hand, it improves the efficiency of social labor in sectors where the relevant innovations are occurring. On the other hand, it makes it possible to use the leeway in capacity and time gained in sectors with lower development dynamics for rapid development of sectors that affect scientific-technological progress and, thus, future increments in efficiency as well.

Nevertheless, from the viewpoint of the material- and energy-intensiveness of our production it ought to be noted that structural development is objectively contradictory. While, on the one hand, it is possible to count on decreasing the share of metallurgical production or industrial chemistry sectors, which translate into a considerable contribution to savings of energy and material inputs, on the other hand, development in the area of fuels and energy on a worldwide scale leads to extraction of less easily accessible fossil fuels, to development of nuclear power engineering, which is connected with a high demand on material and energy sources. Similarly, high demands on the mentioned sources are precipitated by development of intensification of agricultural production, by continuing industrialization of civil engineering, additional expansion and modernization of transportation and communications, etc.

Improvement in the technical level of production--as the most important path toward intensification, to include decreasing the demand on materials and energy--is seen, as was already indicated, in its entirety, i.e., at the level of products as well as that of the production process itself. Both of these approaches are mutually complementary, even though with the known limitation of investment means, the more favorable approach appears to be increasing the technical level and quality of products. Accelerated innovation of products is very often pointed out as a particularly significant approach to intensification of our production, as it results in better marketability in the domestic and foreign market. Emphasis is also put on the importance of improving the technical level of products, particularly of those technical characteristics which translate into lower weight and smaller demand on energy in their consumption (in productive or nonproductive use) in comparison with products manufactured and used up to now.

The great importance of product innovations to the intensification process and to achieving high savings of materials and energy, particularly under the

present conditions of great limitation of resources, should not obscure for us the fact that of decisive importance to achieving substantial progress in saving of all components of social labor is introduction of new technological processes. This is connected, on the one hand, with the fact that potential modification and improvement of products is determined to a great extent by the technological possibilities of the given production. (Research has shown, e.g., that a maximum of 50 percent of products can be modified without changes in the technological base. Improvement of the other 50 percent calls for changes in technological processes.) On the other hand, transition to new technological processes in production alone, connected with automation, introduction of microelectronics or other modern technologies based on new physical, chemical or biological findings brings along substantial increments in economy of time, both in past and direct labor input. After all, authors agree that the historical role of the scientific-technological revolution in the sphere of productive forces is transformation of the existing logistical base on new technological principles with technoeconomic attributes of a higher order.

Technological transformation of the logistical base of our production is an urgent, but also an extraordinarily complicated, problem. It is found in general that the wear and tear and obsolescence of fixed assets in industry is considerable. In comparison with advanced countries, the period of their utilization is on the average longer by 10 to 15 years. One can encounter in our enterprises machinery more than 40 years old. This becomes reflected, on the one hand, in the technical level of machines and installations which are considerably more demanding on materials and energy than their modern substitutes and, on the other hand, in their relatively high breakdown rate. The status quo has to do with the considerably extensive nature of our investment policy and inadequate attention of managerial personnel to the latest trends of scientific-technological progress. It is obvious that if we want to make a substantial advance in intensification of our economic renewal process, we must provide for planned modernization and overhaul of existing installations, something that was considerably neglected in the past. A new quality in the investment process cannot be constituted merely by limiting the total volume of investments, but by assigning a major share, in addition to inevitable investment actions of a developmental nature connected with establishing new viable production sectors, to investments oriented toward modernization and overhaul.

In this context, comes up the question of what level of technology is needed for implementing this modernization. There are essentially two ways. The first is using the proven technology of industrially advanced countries, which in comparison to the status quo in a given sector does mean progress, even though not of a higher order. The second is orientation toward introduction or production of top technology. The advantage of the first approach is relatively easy availability in regard to price level or license authorization. However, its disadvantage, from the viewpoint of the progress of the acquisition of technical know-how, is a certain measure of obsolescence which will keep increasing in time due to the accelerated rate of innovations on a worldwide scale, that being the characteristic feature of the R&D revolution. Its real technoeconomic potential and, through it, its effect of the growth of

efficiency will be rapidly decreasing. In the case of top-level technology the risk of rapid obsolescence is substantially lower but, on the other hand, the possibilities for its procurement from foreign capitalist countries are considerably limited, be it because of prices, apprehensions about potential competition, or discrimination. That calls for even a greater role to be played by our own R&D facilities as well as R&D cooperation with socialist countries.

For the CSSR, which is going through the stage of building a developed socialism with a strong production and R&D potential, highly qualified manpower, there can be no other way under the conditions of the scientific-technological revolution than providing its economy with the latest achievements of science and technology and turn out products of the highest technical level and quality. As we have shown, it is an extraordinarily demanding task, even just from the viewpoint of a certain measure of relative lag in technology, but that is the only way to guarantee that the lag will not become greater.

However, this requires imposing demanding tasks on our own engineering industry, it being the producer of the technology which we will be introducing into our production facilities and which we will be exporting. The quality and technical level of the operations of the processing sectors, primarily engineering, ultimately determines the measure of valorization of raw materials and energy in exports and the extent of meeting the demand in domestic utilization of production in consumption and in investments.

The objective of producing top-flight technology cannot be imposed only on production; it becomes simultaneously the objective for the entire preproduction phase, starting with research institutes and ending with design and planning facilities. Successful management of the relevant tasks obviously calls for changes in organizational and managerial structures of our R&D base as well as in methods of planning research tasks and their linkage to the tasks of the production plan. Among primary tasks, some of which are already dealt with, e.g., by the CSAV [Czechoslovak Academy of Sciences] and the SAV [Slovak Academy of Sciences], is to form through concentration of R&D centers research teams of optimum dimensions which would make it possible to overcome departmental barriers that are the inevitable result of the existing fragmented network of research facilities and also facilitate dealing with research tasks comprehensively and without superfluous duplications. It must be recognized that for the time being the VHL, where the major part of our research capacities is found, did little to avail themselves of opportunities to concentrate R&D capacity, which suffers from considerable fragmentation particularly at enterprise level.

This, however, does not involve only organizational regrouping, but primarily concentration of research tasks, reducing their number so that they themselves would not lead to fragmentation of capacities.

A significant innovation in the area of research management is implementation of a goal-oriented program principle in planning R&D efforts. Even now there

has come into being a system of priorities in scientific research in the form of goal-oriented projects--selected research areas working on research programs that appear as most significant for continued advances in science and technology and for overcoming important problems in the national economy. Goal-oriented projects present a new form of application of priorities in scientific research. However, for the time being, they do not manage to scale the institutionalized boundaries at individual stages of scientific efforts, particularly in basic and applied research.

A full manifestation of the efficiency of new approaches to planned management of scientific research can be expected under the assumption of incorporating these goal-oriented projects into an integrated system of long-term comprehensive programs and state goal-oriented programs which is currently being created as the basis for long-term planning. Within this system, a lead should be established in mutual interlinkage of individual programs, directing goal-oriented research projects into production tasks, and provide for coordination and logistical support of these priority efforts. Connected with it is also adequate organization of management of science and technology which, on the basis of a uniform plan for development of science and technology, could help achieve channeling of the activities of research facilities; this applies in particular to priority tasks of goal-oriented projects and long-term comprehensive programs. Only in this manner will it become possible to span departmental interests and provide for timely dealing with the key tasks of our economic development on a high level of know-how and technology even during the phase of scientific research.

It stands to reason that managing to cope with demanding tasks in the area of science and technology (as well as in our entire economic program) is impossible without deepening R&D and economic cooperation with the socialist countries, particularly the USSR. Our scientific research capacity is objectively limited. Thanks to socialist international economic integration and R&D cooperation, it is possible to specialize and create in this way optimum conditions for optimum dimensioning of teams of specialists and their technical instrumentation, obtain scientific findings which in view of their cost-intensiveness would otherwise be unattainable, not to mention the possibilities offered by the mutually advantageous transfer of the latest technology and cooperation in the solution of research tasks and development of new technology which substantially shorten the science-production-application cycle. For that reason, acceleration of the rate of scientific-technological progress cannot be conceived of without further promotion of the process of international socialist integration in the area of the economy as well as in development of science and technology.

Among the key problems in accelerating the rate of R&D progress in our country belongs creation of the requisite economic mechanism. Efforts toward improving planned management in our country, which culminated in the Set of Measures, were guided by this specific objective. After its 2 years of operation, it can be stated that while the Set of Measures represents a significant step, it is only the first step in this direction. Many measures required by it, which would form a significant prerequisite for continuous advance in R&D progress,

are still in the preparatory stages (e.g., long-term planning, processing of prognoses, long-term comprehensive programs and others). On the basis of the experience obtained through the operation of the Set of Measures so far, a more extensive experiment has been undertaken toward improving the effectiveness of indirect instruments for accelerated application of new technology.

The problems of accelerating R&D progress in production are concentrating on the basis of the current experience on two points that also indicate the direction which further development of the Set of Measures will take: in regard to inadequate linkage of individual parts of the plan for the national economy and the plan of technological development (specifically, however, in regard to its relation to the plan of capital investments--that is, the plan of implemental outputs from the plan of technological development has neither become an unavoidable starting point for investment planning, nor for innovation of the production program) and in providing incentives for introduction of innovations. This involves primarily a system of incentives and motivation within enterprises as the basis for reinforcing the intraplant khozraschet [cost accounting system] as well as improvements in the price system which should make it possible to correctly assess the effective contribution of each enterprise from the aspect of economy and from the viewpoint of social utility of the turned out production.

Thus, acceleration of R&D progress calls for basic changes in the system of planned management of the national economy. Nevertheless, as pointed out by the 16th CPCZ Congress and the Seventh Plenum of the CPCZ Central Committee, this is not the only thing that essentially constitutes an instrument for management of our economy. A turnabout in intensification, a positive approach to R&D progress requires a change in thinking, mainly among managerial cadres. They are called upon to get away from well-trodden paths, display initiative, not to be afraid to take risks, create conditions for applying R&D progress in production, influence economic thinking in this direction and mobilize all workers toward meeting the tasks of the plan through improving quality and efficiency.

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OFFICIALS, INDUSTRIALISTS WEIGH PLANS FOR WORLD MARKET PROGRESS

Budapest NEPSZABADSAG in Hungarian 21 May 83 p 5

/Article: "Getting Ahead in the World Market"/

/Text/ We held a round-table discussion in the editorial offices of NEPSZABADSAG with the title "To Get Ahead on the World Market." In the spirit of the latest resolution, in April, of the Central Committee, the participants debated timely questions of competitiveness, technical development, economical export, entrepreneurship and enterprise interest. Our guests were Dr Akos Balassa, a main department chief in the National Plan Office; Istvan Bihari, director general of Chinoi, Ede Horvath, director general of the Raba Hungarian Car and Machine Factory; Judit Mannheim, director general of the Quality Shoe Factory; And Ferenc Szerb, director general of Vegyepszer, the enterprise building and equipping chemical works. Our editors were represented by Istvan Oroszi.

NEPSZABADSAG: Some economists in America and Western Europe have predicted an upswing in business activity for 1983. How will this affect us?

A. Balassa: According to our forecasts the marketing possibilities and conditions of the capitalist market will hardly improve for us in 1983--despite slight growth in demand in places--and they will not be substantially easier later either. The upswing will be gradual, its magnitude probably moderate and it will affect our chief markets in different ways. Many countries in the world are in debt and everyone is trying to ease payment problems by increasing export, which will increase competition in an unheard-of manner.

E. Horvath: There will be a gigantic struggle for markets....

A. Balassa: Because of the drop in their petroleum receipts, the solvent demand of the affected developing countries has decreased also. Despite this we must strive to preserve the former foreign trade positions we have attained in these countries and strive to discover new opportunities to increase our export in Western Europe and overseas markets.

E. Horvath: In 1982 our enterprise, Raba, increased its convertible export by 20 percent. But according to the signs, this very swift increase will not be repeated this year. So we are striving at least to hold the level of our dollar income of last year in 1983. In addition to meeting our CEMA delivery obligations

our enterprise must hold its own in the significant capitalist markets--in the United States of America--where unemployment continues to be great, where protectionism is strong and where the crisis of recent years has perhaps most affected the auto industry.

F. Szerb: As I see it, the market upswing mentioned will miss us and many Hungarian enterprises as well. For example, the high unemployment influences our market situation unfavorably, in a manner similar to that of Comrade Horvath, because we do not always get contracting authorization for foreign construction. I know from personal experience abroad that the competing enterprises of developed capitalist countries are trying to get out of the crisis; with state aid they are making very great efforts to raise the technical level of their production and reduce their expenditures. So in the developing countries they usually make bids a good bit cheaper than ours and offer their customers credit with advantageous conditions which we cannot give. So, as a result of the changing circumstances, we have gotten into a bind where getting ahead of the competition or at least keeping up would cost more money than we have at present. And for the time being it is still an open question how we might get out of the difficulties mounting before us and realize that market change to which Comrade Balassa referred and which, naturally, I also consider necessary.

NEPSZABADSAG: Amidst so many difficulties and uncertainties, what is it that we can be sure of?

I. Bihari: One thing is certain, in the years ahead we will not be able to hold our market positions with the same product structure with which we were able to increase our export by 10-15-20 percent year after year as formerly. Indeed, we will be able to stay alive only if we renew our production and marketing methods.

To Renovate and Recreate

J. Manheim: In the depths of the recession the Quality Shoe Factory was able to get a foot in the American market by using basic marketing work to find those customers whose needs we were able to satisfy. In the beginning, to facilitate access to the market, we sold our products at a knock-down price yielding less profit. In a short time our products won favor among customers there, and the market found our firm good and competitive, which is proven by the fact that with the cooperation of Tannimpex we signed a several years' contract with our capitalist partner for gradual expansion of export and the development of shoe models. We established a joint export office with Tannimpex with a new interest system; the essence is that the foreign trade people learned to think "industrially" and industry learned the conditions for export marketing. Thanks to this and to the not small material efforts made to create a high technical culture, our capitalist export has increased 3 times since 1980 and today reaches 25 percent of the receipts. Simultaneous with this, the product structure of our socialist export was completely transformed also.

F. Szerb: The unique nature of Vegyepszer requires a different solution. The organizational separation of production and foreign trade also makes our extraordinarily complex export undertakings very difficult. So we are now asking

independent foreign trade rights for Vegyepszer, and I trust that we will get them. At the same time we have agreed with another domestic industrial enterprise with a similar profile to establish a joint stock company for joint conduct of export undertakings. This will give us greater capability than if we acted separately, and we can protect our risk losses also.

E. Horvath: In judging our world market competition situation I too share the opinions voiced here. Today, perhaps, we can find comfort in the fact that the dynamic growth of the convertible export of Raba is securely based on long-term international manufacturing specialization and trade agreements signed 10-15 years ago, and on our continual efforts to transform the product structure. We might note that we have profited and are profiting with good products on the CEMA markets also. We are also trying to satisfy the very demanding domestic customer, Hungarian agriculture, with modern machines.

As for the future, it is to be expected that in the years ahead specialization aimed at increasing productivity will begin in the auto industry of the Western European capitalist countries also, as a result of the ever sharper competition, and Raba has the possibility, the modern manufacturing base, the expertise and the experience to join in this process by delivering modern subassemblies. Agreeing with Comrade Szerb, I still say that if our production should remain at the present level of technical development, then within 5-10 years our capitalist competition could force us out of the Middle East and other markets. In the auto industry, a sort of fashionable specialty, the large world firms develop new models every year. The 1982 designs are out already, there are even 1983 models on the market. So it is a true saying: one can do almost anything in business, but one cannot make up for lost time.

J. Manheim: Western shoe factories, expanding the spring, summer, fall and winter selection, put a total of eight model selections on the market every year. If they did not, they would not be competitive. For the time being, with our resources, we can put out only four to six model collections per year.

I. Bihari: However strange it may sound even pharmaceuticals are a fashion item in a certain sense, because the market and the greater profit go to him who appears first with some powerful, new, original preparation. But in the pharmaceutical industry, because of the peculiarities of the profession, it takes generally 8-10 years to realize research results and introduce medicines on the market; but for us the slowness of domestic development and the extraordinarily low level of our marketing work make this renewal process ever more difficult. So we are trying to find market gaps left open by the large world firms where, in accordance with our conditions, we can fit into the international division of labor well. This will make possible a utilization, much more efficient than at present, of the relatively significant intellectual capital of our pharmaceutical industry.

NEPSZABADSAG: This is only a plan. Is there anything concrete yet?

I. Bihari: We already have a cooperation agreement with a significant Western European firm which covers about 15 percent of our convertible export, and we

are planning a joint enterprise and similar production-development cooperation with two large American enterprises. These long-term cooperation agreements will make it unnecessary for Chinoïn itself to perform the entire research and development, manufacturing and marketing process. We are also joining in the innovation activity of large enterprises which have a marketing network embracing the entire world. In the framework of another of our joint undertakings, Chinoïn hopes to make use of its internationally recognized chemical research achievements with the cooperation of an American partner firm. This is in a stage from which, within 2-3 years, export business worth several million dollars may be created.

Who Should Contribute More Money

F. Szerb: We also are following a path for increasing our economic performance like the one mentioned by Comrade Bihari, or something similar. Even during the recession we were looking for business opportunities in the realization of the large-scale energetics and environmental protection programs being realized around the world. Thanks to this, the enterprise is developing even now and its financial situation has been stable for many years despite the general decline in investment market demand.

But thinking from the viewpoint of the future, it is more important to talk about those pressing problems which I mentioned at the beginning of our conversation, about how we cannot go on with our own strength alone, about how we cannot realize the urgently necessary increase in the technical level of our production. In the absence of supplementary resources and credits, we cannot, for example, bring off the plan to create a joint Hungarian-FRG enterprise ensuring new possibilities for increasing economical export, and for the same reasons we cannot sign a number of other promising export deals in the developing countries either.

A. Balassa: Who would provide such supplementary resources, and from what? It is well known that at present the national economy is not in such a position that the enterprises should get more developmental credit and other concessions than planned. It already causes a problem that in 1982 again the enterprises had somewhat more developmental resources than the plan counted on. This could increase the tensions in the balance of our economy, because the investment purchasing power, at a higher level than desired, can curtail the export goods base, which is not sufficient in any case, and reduce the commitment of the enterprise producing investment goods to increase their convertible output, which demands greater effort and more understanding. So access to developmental resources should be possible primarily as a result of one's own profitable activity, and with efficient proposals corresponding to the strict credit conditions which fit into the credit possibilities.

Arguments and Counterarguments

F. Szerb: Of course I know that in the present difficult balance situation central economic guidance cannot give free reign to investments. But it is not good for the national economy either that the present forced constraint cause virtually insurmountable difficulties for many efficient enterprises, including

ours. Due to the income regulation, which continues to be an equalizing one, their developmental resources are not sufficient, and not only to put an end to their technical backwardness; very frequently they are not sufficient even to maintain the present technical level of production--just ask those present here. And if we do not say this openly, if we talk only about results, then public opinion may get the impression that everything is actually all right.

A. Balassa: There is much truth in that. This is why we are trying to differentiate developmental possibilities according to economic results, according to the effectiveness of the development. But let me note that this is made difficult by the fact that enterprises which are not working efficiently and not developing economically have overspent to a large degree and cannot pay off the investment credits assumed earlier, so the state is forced to regroup assets, with definite conditions, to help them.

I. Bihari: But because of this, the developmental possibilities of efficient enterprises is reduced, and no few of them are forced to reckon with the danger that the technical level of their production will fall increasingly behind that of their competition, and slowly they will also fall in the category of uneconomical enterprises.

E. Horvath: Those which are not competitive on the world market will die. Because of this they closed even a number of Western auto factories in the depths of the recession. But there are few examples of this here, despite our earlier promises to cut back or abolish uneconomical activities. And this leads to an excessive frittering away of our developmental assets.

A. Balassa: It is my opinion too that this path cannot be followed in the long run. The most recent resolution of the Central Committee warns that we must turn developmental resources primarily to raising the technical level and that operating conditions for dynamically developing enterprises must be improved. There are also great possibilities in the area of more efficient use of the developmental financial assets available. This year, on the basis of their own decisions, the enterprises will spend more than 100 billion forints on development--thus within state investments. According to experience, a good part of this is being used carefully, efficiently and for an appropriate purpose. But it is not certain that the money is being spent always and everywhere for what is really most urgent. Not, let us say, for mechanization serving an increase in the technical level and a reduction in expenditures, but rather on construction of an expanding character. Who, among those present for example, is building a new factory?

E. Horvath: Raba is.

J. Mannheim: The Quality Shoe Factory is.

NEPSZABADSAG: Can't one develop with reconstruction?

E. Horvath: Our Szentgotthard factory is 100 years old, so it cannot be rebuilt through reconstruction, and we cannot spend much money on the existing manufacturing profile. By building a new factory, developing new agricultural profiles

and using the good experts of the old factory, it will be possible for us to exploit better the demand for agricultural machines, which can be expected to increase on the world market in the future.

J. Manheim: Both reconstruction and construction cost a lot of money. For example, last year we realized mechanical reconstruction worth 40 million forints. This makes possible better service to the convertible export markets, the manufacture of small series according to customer needs, swift conversion and an increase in productivity. But we also need a new factory to increase economical export further, and for precise fulfillment of our large volume Soviet orders.

Who Should Contribute More Money?

NEPSZABADSAG: The old problem for competitiveness has been the clumsy and fitful cooperation of exporting enterprises and the domestic background enterprises serving them. What is the cause of this?

I. Bihari: The chief cause is that the conditions for material and moral incentive for a rational division of labor within the country still do not exist. Some feel that they are virtual servants if they work for an enterprise producing for external markets....

F. Szerb: And if they cannot give greater wage increases because they have no convertible export.

E. Horvath: We should reach into the purse and share the profit of economical export with the cooperating enterprise. In exceptional cases we are ready to pay a premium incentive price for fulfillment outside the sequence of orders. If it is worth it to me, why shouldn't I?

J. Manheim: If it is worth it, I would do it too. But is it always worth it? And how does this change the interest in "exporting it yourself"? For example, domestic industry can now produce good-quality leather from which we could manufacture shoes which could be sold at a good price for convertible export, and we could decrease our capitalist import also. But the leather industry does not sell this product to us but rather exports it itself, because it has an interest in this. And there are similar examples in other areas too, although everyone knows and recognizes that in general the export of domestic primary material at a higher level of processing is more profitable for the national economy.

E. Horvath: One time some mechanical equipment of key importance broke down at the Diosgyor Machine Factory, an old cooperating partner of ours, and manufacturing stopped. They called us on the telephone and said, "If you lend us 10-15 clever experts, then the problem can be corrected quickly and manufacturing can begin again." It was done, and they asked what they owed. "Nothing," I said. "My friend, I thank you for calling, because in this way we avoided a bigger problem."

J. Manheim: Most recently we agreed with the Pecs Leather Factory on joint development of domestic manufacturing of the special shoe uppers leather acquired previously from capitalist import. We undertook to share the costs, with suitable conditions. Within 2 years this will make it possible to replace considerable capitalist import economically with domestic manufacture. And by virtue of guaranteed deliveries to us the Pecs factory will expand its convertible export goods base with a new profitable product.

I. Bihari: At present we buy a certain material for 7 dollars per kilogram. If we bought less processed material for the same purpose and had the product we need made by a domestic partner enterprise therefrom, we could save more than half of a capitalist import which now costs us several million dollars. It is also possible that the product in question could be produced entirely at home within 2 years. But all this can be realized only if we can make our domestic partner materially interested in doing it.

NEPSAZBADSAG: I believe that what has been said proves unambiguously to all of us that competition does not rule out but rather presumes good cooperation with domestic and foreign partners; indeed, in many cases this may be the chief means for a successful undertaking.

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SPRING FAIR DEMONSTRATES ELECTRONICS PROGRESS

Budapest NEPSZABADSAG in Hungarian 21 May 83 p 4

[Article by M. T.: "Rivalry Among Personal Computers"]

[Text] Something has started in the domestic electronics industry, and on the basis of what we have seen the beginning is reassuring. The first results of the central electronics development program are here before us at the spring fair. The "custom-made" circuits of the Microelectronics Enterprise, made for the first order, have appeared and manufacturing enterprises began to use them immediately.

In connection with this Ivan Nemeskeri, director general of the Microelectronics Enterprise, said that 5-6 such circuits have been made thus far and they are now preparing manufacture of another 20, and talks for another 80 are being conducted with users. So expectations and interest are great. Experts say, on the basis of what has been seen, that the concept of the central electronics development program has proven to be a path which can be followed. This is the only way we can replace the import of capitalist parts and improve the competitiveness of our apparatus manufacture.

At the fair we met with Mihaly Sandory, government commissioner for the micro-electronics program, who summed up his experiences as follows:

"It should be noted that electronics appear in virtually every instrument and tool of production. Especially interesting from this viewpoint is the exhibit of Medicor, where they use microprocessor control in almost all the medical equipment. One example is the three-channel EKG, which not only measures the data but also aids the physician in making the diagnosis. Or I might mention the MOD-81 data collection device, which decreases the administrative work of doctors. The rising level is also indicated," the government commissioner continued, "by the fact that at this exhibit they are showing equipment which we cannot buy from abroad because of the embargo; but we were capable of designing and producing it. One example is the metal atomization equipment which won a gold medal at this year's Leipzig Fair and now has been awarded the Budapest International Fair prize; it can be used to deposit high-purity metal layers." (The original solution, which makes the efficiency of the quipment unique, has been patented by the Microelectronics Enterprise.)

We met Istvan Kiss, director general of the Telecommunications Research Institute (TAXI), in front of the parabola antenna which can be seen in our photograph. With this new device of TAXI one can receive, simultaneously, the television transmissions of five countries from broadcast satellites. Development here got a little ahead of life, because experimental transmissions are expected to begin in Western Europe only in 1985-1986.

The director general answered as follows to the question of what changes he found at the fair as compared with last year:

"The ratios have changed noticeably. There is more equipment operated by remote control, the ratio of devices with microprocessor controls has increased greatly, the new products are suitable for performing more complex tasks and they are more complex. Digital techniques and noise-free, precise information transmission have spread further."

A number of technical creations of high quality, unique within CEMA countries, appears at the fair. These include the 16-channel studio tape recorder with microprocessor control of the Mechanical Laboratory. The designers succeeded in creating in an original way the magnetic recording head and motor, the two most sensitive parts of the equipment, which otherwise can be obtained only from capitalist import.

As far as we know, the computer technology tape recorder, a joint development of Orion and the Central Physics Research Institute, has no rival either. This is an auxiliary unit for small computers the data storage capacity of which was characterized by someone by noting that the complete works of Jokai would fit on a single spool of it. But we must mention, among the outstanding achievements, the studio mixing table of the Electroacoustics Enterprise, the color television camera of the Signal Technology Cooperative, which won a Budapest International Fair Prize, and the completely renewed parts exhibit of Kontakta. In a very short time, 6 months, the Computer Technology Applications Enterprise developed its microcomputer called the Mikrosztar-11. Main department chief Janos Kutas said that in regard to capacity this personal computer is the size of the largest computer in the country 10 years ago. The tempo of development in this branch of industry is astounding.

And as long as we are here, we must say that the rivalry among personal computers left its stamp on this exhibit. One expert said in this regard: "One can find a fortunate competition among personal computers."

But another said: "Four or five domestic enterprises have developed personal computers independent of one another. There is now a domestic model for every 2.5 million Hungarians. In this respect we are first in the world for sure. But I am not so happy with it, because the first thing I think of in connection with this is whether we are using the creativity and knowledge of our engineers purposefully enough. And I also think about the lack of coordination...."

HUNGARY

PATTERN OF FOOD SUPPLY, USE TRACED

Munich SUEDEUROPA in German No. 3-4, 1983 pp 194-208

[Article by Endre Antal]

[Text] During the past 15 years Hungary has developed a functioning and efficient agriculture that is based on a combination of large socialist enterprises, agricultural producer cooperative farms and ancillary activities of the people as well as overall central planning and the enterprises' own initiatives. The contribution of the food industry to the country's 1981 gross national product, amounted to a total of roughly 26 percent. Industrial foodstuffs production or processing (foodstuffs industry) accounted for about 10 percent of that. However, agriculture had a 16.6 percent share and the foodstuffs industry--because of the work done by agriculture and other sectors--only approximately a 4 percent share in originating the national income.

About every fifth gainfully employed Hungarian earns his livelihood in agriculture. At the end of 1981, 983,700 full-time workers, or 19.6 percent of the total number of employed persons in the economy, were working there. In 1981, the foodstuffs industry provided work for approximately 195,000 full-time workers. That corresponds to about 12 percent of the total number of wage and salary earners in Hungarian industry and about 4 percent in the economy¹. Among the individual branches of the food, beverage, and tobacco industries, the meat, poultry, and egg processing industries and the canned goods plants, mills, and dairies above all others have the highest shares in the gross production of this branch of industry, in the number of employed as well as in the investment resources. The growth in the share of the dairy and vegetable oil industries during 1975-1981 is evidence of the stepped-up expansion of the relevant production capacities.

Smooth Food Supply--Increasing Export

Compared with other CECA countries, such as, for example, the Soviet

Union, Poland, and lately also Romania, the population in Hungary today is being supplied with foodstuffs almost without problems. Occasional temporary or regional supply bottlenecks are, for the most part, of a marketing organization and quality nature, not the expression of a too short supply. Moreover, since there has been success in considerably reducing the yield risk caused by weather conditions, the increasing consumer demand for foodstuffs--growing by 0.3-0.4 percent on an annual average--can be satisfied at a relatively high level even in bad crop years. However, the growth in demand is also being impeded by the per-capita work income that is growing only slowly or not at all in comparison to the prices.

As a rule, agricultural production exceeds the country's domestic demand, so that important quantities of products are available for export over and above the satisfaction of the good purchasing power of the domestic demand. Thus far Hungary, as the sole CEMA country, is a permanent and important agricultural net exporter. In view of the overall economic and especially foreign trade imbalance², foodstuffs production in Hungary is of especially great importance at this time. Normally approximately one fifth of the food, beverage and tobacco production is being exported, which corresponds to about 25 percent of total exports. Approximately two-thirds of the exported food, beverage, and tobacco industry products are being sold for freely convertible foreign currencies, so that about one fifth of the dollar receipts of the Hungarian economy comes from such exports; if the exports of agriculture itself are added, this comes to no less than one third.

On a per-capita basis, Hungary is the biggest CEMA agricultural and foodstuffs exporter. Similarly high shares of agricultural and foodstuffs products as in Hungary are also recorded in the Netherlands and in Denmark, countries that are among the leading foodstuffs exporters in the world; however, they also export other goods to a significant extent. During the past decade Hungary succeeded in approximately quadrupling its foodstuffs exports. According to FAO³ figures, they amounted to exactly \$2 billion in 1980. At the same time, an export surplus of approximately one billion dollars was achieved.

Food, beverage, and tobacco constituted 45 percent of the expenses of the average Hungarian family budget in 1981/82. Food production and supply is an important factor of domestic political stability. Party and government are aware of that and adopted appropriate decisions on the further development of agriculture and the food industries as early as 1977/78 and also at the 12th MSZMP Congress:

"Our favorable natural conditions make possible preferential development of agricultural production. The increase in agricultural and foodstuffs production must guarantee the smooth supply of the domestic market and increasingly ensure profitable

exports."⁴ The Party Congress resolutions clearly speak of the goal of an efficient, intensive, and coordinated development of the entire foodstuffs production during the further course of the eighties. In doing so, the Hungarian food industry will continue to adhere to the coexistence and cooperation of large and small scale foodstuffs production in agriculture that was successfully practiced in the seventies and will also emphatically implement such a policy in the food industry.

Large and Small-scale Foodstuffs Production

Approximately two-thirds of the production of Hungarian agriculture come from large socialist enterprises--state farms, agricultural producer cooperatives and so-called specialized cooperatives (a somewhat lesser degree of socialization)--that account for 57 percent of total animal production and for about 75 percent of the crop production. Starting in the first half of the sixties, a process of concentration has taken place in Hungarian agriculture. While in 1960 there were 4,500 agricultural producer cooperatives of approximately 1,000 hectares of agriculturally productive land, in 1981 there remained only 1,320 agricultural producer cooperatives, which, however, cultivated 4,000 hectares each. Similarly the number of state farms decreased from 333 to 130 with a present (1981/82) average of 7,600-7,700 hectares.⁵ The process of concentration is accompanied and overlapped by trends of specialization. This development is manifested, among other things, in the growing number of specialized large facilities for animal keeping and of fields ranging from a few hundred to as much as over 1,000 hectares. Specialization goes hand in hand with development of interenterprise cooperation.

During the past decade, but especially during the past 5-6 years, several new "integrated production systems" have been introduced in Hungarian agriculture. The enterprises operating on this basis⁶ are to optimally include, combine, and apply at a high level all factors (chemical, technical, biological, economic, and manpower) required for the manufacture of a product. Today there are over 70 such systems in Hungary. This form of organization is regarded as a development goal for the Hungarian agricultural enterprises, but also for the food industry per se.

High status and great economic importance are also attached in Hungarian agriculture to the private spare-time enterprises of the cooperative farmers, the private plots as well as the ancillary activities of other population groups (for example, of the wage and salary earners, and pensioners). In the mid-seventies at the latest, the understanding had fully prevailed in the MSZMP and had also been expressed at the 11th Party Congress (1975) that the acute problems of agricultural production and the consumer supply with foodstuffs can only be solved with assistance from these

agricultural enterprises. Since then the thesis of the "organic unity" of collective farms and private plots and ancillary activities in the agricultural producer cooperatives has been applied. For this reason, the above-mentioned producer groups in Hungary are officially, that is also statistically, grouped with the socialist agricultural sector.

Approximately 1.8-1.9 million Hungarian families with a total of about 5.3 million persons, that is approximately half of Hungary's population and much more than the part belonging to agriculture or the agricultural producer cooperatives, operate such farms today. The importance of this figure is not least that it is pragmatic policy of the party toward the small private agricultural enterprises, which makes likely its continuance for a foreseeable period. It is also true that during the past decade the production share of the small producers--which also includes a disappearing minority of individual farmers--in the gross agricultural production has been steadily declining while total production has been growing, but even today it accounts for more than one third.

In some production sections and for some purposes, the production contribution of the small producers is virtually irreplaceable, for they produced (1980-82), for example, 56-57 percent of the slaughter hogs, 42 percent of the milk, over a third (37 percent) of the poultry meat, two-thirds of the eggs as well as approximately half of the fruit and vegetable production. Moreover, more than half of the extensive Hungarian agricultural export, including the export of rabbit meat, honey, feathers, squab meat, mushrooms, and snails come almost 100 percent from the enterprises of this producer group. Thus the private plots and ancillary activities are engaged predominantly in labor-intensive branches of production that are, for the most part, of no interest to the large socialist enterprises on account of their lack of manpower and from profitability aspects.

Production Increase in the Food Industry, 1976-1981

The Hungarian agricultural policy instituted and promoted development trends that made possible a dynamic development of the food industry during 1976-1981. On an annual average, the gross production of agriculture increased 2.9 percent and that of the food industry, 3.5 percent.⁸ But the economic plan target to raise the gross production of agriculture 16-18 percent by 1980 compared to 1975 and that of the foodstuffs industry simultaneously by 28-30 percent, has not been achieved. The increase attained was 12 percent in agriculture and 21 percent in the foodstuffs industry. The production fluctuations in agriculture are the result of reverses in crop production in some plan years.

Table 1: Rate of Increase (% per Year) of Gross Production in the Food Industry, 1976-1981

Sector	1976	1977	1978	1979	1980	1981
Agriculture	-2.7	10.3	2.0	-1.1	3.4	1.0
Food, beverage, and tobacco industry (Food industry)	1.4	9.9	0.4	2.6	2.5	3.0

Sources: "Statizstikai evkonyv 1980, "Budapest, 1981, pp 164 and 249; "Statizstikai evkonyv 1981," Budapest, 1982, pp 95 and 157

Nonfulfillment of the 1976-1980 economic plan in the food industry was caused by the slower growth of production in the meat and canned goods industry, which, on its part, can be traced back to an insignificant increase in domestic agricultural production on the one hand and the foreign market situation on the other hand. Towards the end of the seventies, unprocessed agricultural products could be sold in the West at increasingly more favorable prices while processed goods only brought in depressed prices. An increase according to plan of the production of the processing industry concerned--while fully meeting the domestic market demand--would not have been economically justifiable under these circumstances.

In spite of its unmistakable production increases, the Hungarian food industry in good agricultural years was frequently unable to process the accumulating raw material fully and/or on time. This applied primarily to fruit and vegetable processing but also in part to meat (slaughter hogs). On the other hand, capacities were not fully utilized in so-called bad agricultural years.

The Hungarian food industry lagged in the seventies as regards its competitiveness on the increasingly sharply contested world market. The development of its production was primarily oriented toward the domestic market at least up to the early part, but actually to the middle, of the past decade. Primarily those products were exported that were available over and above the satisfaction of the domestic demand. Most of the products could be sold without special effort and without marketing. Since, as a rule, the domestic market did not demand top quality, this situation had a negative influence on the general quality level of foodstuffs processing. It is true, the discrepancy between raw material production of agriculture and the processing capacities of the food industry were noticeably reduced in the last 5-year plan, a series of processing capacities that guarantee assured and profitable sales on the world market were newly put in operation and the growing demand of the domestic consumers could be satisfied at a relatively high level almost all the time. However, at the same time, the increase in the profitability of the production and the change in the product and

supply structure did not make sufficient progress in the direction of world market level products.

No modern integrated technological chain has been developed in the food industry in spite of brisk and extensive modernization measures and investments for expansion. Frequently modern production facilities and obsolete auxiliary equipment or also inadequate transportation and storage capacities are operating side by side and detract from the economic benefit of capital as the production factor. In recent years this has had a strong effect on a declining capital productivity in the food industry.

Higher Nutrition Standard

Hungary, which occupies a "middle" rank in its economic development, now possesses a high standard of nutrition in an international comparison. Despite occasional supply bottlenecks and shortcomings in the distribution network, the supply and demand of the food market--with rising prices and also rising but comparatively low income--are largely balanced. Nutrition awareness and food consumption in Hungary, with regional differences, continue to be strongly oriented to traditional patterns. In 1981, the average Hungarian consumer had a total per-capita consumption of 71.8 kg of meat and meat products and about 2.2 kg of fish and fish products, 172 kg of milk and milk products (not including butter), 315 eggs, 31 kg of fat (including 2 kg of butter), 114 kg of flour and rice, 36 kg of sugar, 3 kg of coffee, 33 liters of wine, and 88 liters of beer, 9.5 liters of high-percentage alcoholic beverages, 84.6 kg of vegetables, 80 kg of fruit and other foods, beverages, and tobacco. The daily per-capita nutrient consumption was about 13,690 kilojoule and the protein, fat, and carbohydrate consumption amounted to 104, 133, and 408 grams, respectively.⁹ In calorie consumption Hungary, in an international comparison, was approximately at the level of the Scandinavian countries; for animal protein, its consumption approximately corresponds to that in Austria and France.¹⁰

Hungary occupies a middle position as regards per-capita meat consumption compared to other CEMA countries. Thus, for example, in 1980 the average Soviet citizen consumed 57 kg; the Bulgarian, 66; and the Czech, 85; or the East German about 90 kg of meat and meat products.¹¹ However, in recent years among the CEMA countries only in Hungary was it possible to purchase the desired meat and meat products at all times and everywhere and in an attractive assortment. The per-capita meat consumption in Hungary has been constantly rising since the end of World War II. The increased consumption affects primarily pork, which is traditionally preferred in Hungary. Pork, with 56 percent, constitutes more than half of the total consumption. One of the causes is likely to be the fact that many Hungarian households raise their own hogs and occasionally do their own slaughtering several times a year. In addition to pork, poultry has increasingly gained in importance and today meets 24-25 percent of the meat consumption. Accordingly beef

Food Supply in Hungary

Table 2: Production of and Foreign Trade With some Selected Food Industry Products (in 1,000 tons, unless otherwise indicated)

<u>Production</u>	<u>1970</u>	<u>1975</u>	<u>1980</u>	<u>1981</u>
Meat with bones				
Production	308	546	608	595
Import	57	10	12	16
Export	43	108	161	152
Hard sausage				
Including salami	34	38	42	43
Production	9	10	13	13
Export	5	6	8	8
Edible fat	60	99	101	91
Poultry for the table	93	133	171	186
Milk (million liters)	503	668	700	819
Butter	20	18	32	32
Cheese	24	23	38	42
Edible oil	18	27	39	40
Sunflower oil				
Production	34	50	129	185
Export	19	29	85	117
Bread	946	890	370	851
Baked goods (million units)	1898	2444	2747	2823
Chewy candy	26	26	30	30
Sugar				
Production	280	308	468	490
Import	34	183	36	130
Canned meat				
Production	28	48	59	43
Export	8	22	36	30
Canned vegetables				
Production	207	237	301	277
Export	156	195	234	232
Canned fruit				
Production	135	178	232	202
Export	82	98	126	139
Refreshment drinks (million liters)	37	133	233	263
Wine production (million liters)	219	235	241	239
Beer (million liters)				
Production	501	662	784	793
Import	114	102	139	162
Cigarette production (billion units)	22	25	27	27

Source: "Magyar statisztikai zsebkönyv 1981," Budapest, 1982, p 146 ff

consumption is low; it hardly showed any increase in the long term. Consumption of veal, mutton, and horse meat is low in quantity and practically without importance to the balance sheet for meat consumption.

In Hungary, fish and fish products traditionally are not preferred foodstuffs. Per-capita consumption, which was 0.6-0.7 kg prior to World War II, did increase in the meantime to 2.7-2.8 kg, but has by far not reached the level recommended by the science of nutrition. The Hungarians today consume only about half of the quantities of fish customary in other comparable countries without direct access to the sea, such as, for example, Czechoslovakia. Plans are to stimulate fish consumption and to raise it to an annual per-capita consumption of as much as 4 kg for which adequate quantities of fish would be available. However, it is questionable whether the average consumer is interested in that with present prices and price relationships. In view of the continuing increase in the quantities caught and processed, growing quotas are likely to be available for export during the coming years. It is characteristic of the structure of meat consumption in Hungary that approximately 76-80 percent fresh meat is being consumed and only 20-24 percent processed products. This is the result of too high prices compared to the popular types of meat, especially for long-keeping and hard sausage products, but also of the shortage of available quantities on the domestic market. The processing capacities of the meat and canned goods industry up to a very short time ago were not big enough and moreover their products were also exported. Only by expanding the appropriate processing capacities did they succeed in generally expanding and improving the supply assortment and to increasingly satisfy the growing domestic demand.

Maintaining the Standard of Living

The standard of living policy of party and government and planning of Hungary's socioeconomic development for the first half of the eighties are primarily directed toward maintaining the standard of living reached in 1980. In view of the planned moderate growth of national income during the 1981-1985 5-year plan period, it will probably not be possible to increase private consumption by more than 1.3-1.5 percent on the average and the per-capita real income of the population by 1.2-1.3 percent. The plan provides for the purchasing power of the real wages to remain at the 1980 level up to 1985. In the development of the standard of living, improvement of working conditions, of the work organization, introduction of the 5-day workweek, and similar factors that have a positive influence on the public without an excessively high financial expenditure will be stressed in the planning period. An annual increase of 2.8-3 percent is planned for social insurance benefits from 1981 to 1985.¹²

The rate of increase in food consumption, which had been about 2.5 percent on an annual average during the sixties, dropped to 0.3 percent per year during 1976-1980. No higher rate of increase is to be expected during the first half of the eighties either.¹³ In view of the present relatively high consumption level for various foodstuffs, what is important in the future is primarily the differentiated development of the food consumption in the direction of a physiologically healthier nutrition.

After the prices of the most important foodstuffs had been raised only moderately from 1970 to 1978, the Hungarian government in 1979 decreed a price increase of 20 percent on the average (for bread, milk, and some other basic foodstuffs even considerably more). In 1981, the prices of meat and meat products were again raised by 10 percent on the average. Causes for the raising of the food prices are: a) greatly increased production costs in the food industry; b) the intention of reducing the state consumer subsidies for foodstuffs, which could hardly be financed any longer, by 30-40 percent on the average (these subsidies benefit not only the socially weak strata of the population but also those in higher-earning positions and not least the many tourists and guests from foreign countries¹⁴); and c) to prompt the population to use the high-grade, foreign-exchange-earning foodstuffs economically and in this manner to make available additional quantities of foodstuffs for exports.

Consumption Prognoses

The Hungarian prognoses on the development of food consumption during the eighties and beyond to the year 2000 assume a further increase in per-capita consumption of some important products. That applies especially to animal protein and to vitamin-enriched products; a decrease is expected as regards grain processing

Table 3: 1985 Food and Nutrient Consumption in Hungary

Products	Minimum	Maximum in		Realistically
		Two Variants		
Meat*	68.9	78.4	77.1	74.3
Fish*	2.5	3.6	3.0	2.9
Milk	143.6	176.0	180.0	154.7
Eggs*	17.1	20.8	22.0	18.3
Animal fats*	29.4	31.4	30.0	31.3
Animal protein**	51.6	60.4	60.4	55.5
Vegetable protein**	50.0	44.8	44.8	46.5
Fruits and vegetables*	164.0	171.0	171.0	177.5

* kg per capita per year

** gram per capita per day

Source: ELELMEZESI IPAR, 8/1980, p 295

products and fat. The planning department of the Ministry for the Food Industry prepared a forecast in 1980 on the possible and probable development and course of food consumption in several variants. This forecast realistically predicts, among other things, an annual per-capita meat consumption of 74.3 kg, fat consumption of 31.3 kg, and fruit and vegetable consumption of 177.5 kg.¹⁵

Excess weight, which affects one third of the Hungarian population, thus remains a problem also in the future that has a negative effect on public health. The growing consumption of alcoholic beverages which--despite repeated hefty price rises--continues to increase, apparently without any prospect of stopping it, causes great worries to the persons concerned with nutritional policy in Hungary.

The food supply of the Hungarian domestic market functioning without significant problems in the early eighties is based in the first place on the relatively high potential of agriculture and on the stepped-up development of the production capacities of the meat, dairy, canned goods, vegetable-oil, and refrigeration industries, especially during the second half of the past decade. In view of the export assortment of the food industry, where meat and meat products play an especially big part, meat production and meat export are to be examined in greater detail in the following.

Industrial and Industry-like Meat Production

Meat production is an important branch of the Hungarian economy. If poultry and egg-processing industries are included, the meat industry contributed 6 percent on the average to the gross production of Hungarian industry during the second half of the seventies and it employed at the same time 1.7-1.8 percent of industry's labor force. In 1980, the annual per-capita production of meat and meat products was in the neighborhood of 150 kg. Poultry accounted for 33 kg of this quantity. At the beginning of the eighties, Hungary's per-capita meat production is at the level of the European Community, about 5 times as high as the world average and 100 percent over the CEMA average. Hungary produces 6-7 percent of the total CEMA meat production while its CEMA population share is 2.7 percent.¹⁶ Including all associations and trusts, 24 enterprises, and thus 1.74 percent of all industrial enterprises, belonged to the meat industry in 1981. Simultaneously additional 13 state enterprises were working in the poultry and egg processing industry.¹⁷

In the individual calendar years reverses have also been clearly noted in the developmental dynamics of meat production, which for the most part were the result of the difficulties in feed supply, but occasionally also coming from animal epidemics or--because of the specially great importance of pork in meat production--also caused by the hog cycle registered until 1976/77 and in the past

decade not least also because of a shortage of processing capacities. From 1980 to 1985, industrylike and industrial meat production in Hungary is likely to be increased by 10 and perhaps even by 12 percent based on the relevant determining factors. Hungary would like to export two-thirds to three-quarters of this production growth on account of the slow rise in domestic consumption.

Table 4: Meat Production in Hungary (in 1,000 tons)

Products	1960	1970	1975	1976	1977	1978
Meat, total	816	1040	1422	1324	1467	1525
Including:						
beef and veal	151	204	229	200	199	208
Pork	499	589	892	799	931	955
Mutton and goat	9.7	17.9	17.1	13.6	14.1	15.0
Poultry	122	224	280	308	320	342
Other	34.1	5.4	4.2	4.2	4.2	5.0

Products	1979	1980	1985*
Meat, total	1521	1541	1690
Including:			
beef and veal	212	196	200
Pork	963	977	1050
Mutton and goat	15.7	16.0	25.0
Poultry	325	347	385
Other	5.0	5.0	..

* estimated

Source: for 1960-1976: "CEMA Yearbook", Moscow, 1978, pp 207-208;
for 1977-1980: Ibid. 1981, p 229

In close connection with the stepped-up expansion of the processing capacities of the meat industry, primarily in the second half of the seventies, production of meat products increased at an especially dynamic rate.

Based on the available processing capacities which were anyway already overtaxed, the meat industry was unable to produce more meat products in 1976-1980 even with the output of the cooperative enterprises added, which contributed about 15 percent to the total production. Moreover, because of the prices the demand of the Hungarian consumers was directed toward fresh meat and therefore provided only a weak impetus for increasing the level of processing in the meat industry. Even today some sausage products and canned meats are disproportionately expensive in Hungary in comparison to fresh meat. Thus, for example, salami cost 220 forint per kg in Budapest in June 1982, while the consumers had to pay only 60-90 forint on the average per kg of quality meat.

Table 5: Development of Output of Meat Products (in 1,000 tons)

Products	1970	1975	1979	1980	1981
Fresh meat (with bones)	307.7	546.1	591.6	607.9	595.7
Soft sausages	37.1	58.5	68.2	69.0	·
Meat sausages	33.6	38.2	38.4	41.6	43.4
"Gyula" long-lasting sausages	5.8	6.0	6.2	7.6	·
"Salami" long-lasting sausages	8.6	9.7	13.3	13.2	12.8
Canned meat	27.8	47.6	58.6	59.1	52.9
Table poultry	93.2	133.3	160.7	171.0	184.4

Source: "Statistikai evkonyv 1980," Budapest, 1981, p 163
 "Statistikai evkonyv 1981," Budapest, 1982, p 110

The increase in the level of processing in Hungarian meat production is a long-drawn-out and complex development process that is closely connected with the available production capacities and investment funds, production and sales policy goals, with profitability of the individual products and not least also with the development of domestic and foreign demand. At this point it should be noted that especially the markets in the West that are particularly important to the significant Hungarian meat and meat product exports increasingly are demanding processed meat products. The Hungarian meat industry tries to meet this requirement and plans to raise its production of meat products of high and higher level of processing by 20-30 percent if the profitability situations of the products permits it. This development corresponds to the international trend in increasing the output of meat products, that is the clear raising of the share of processed goods in animal and meat production in line with the rise in the standard of living.

Hungary, the Leading CEMA Meat Exporter

In the early eighties, Hungary presents itself as an important net meat exporter. According to export sales, Hungary is the biggest CEMA meat exporter with a share of 36 percent in total meat and meat product export. However, in world meat trade, Hungary, with an about 4-5 percent share, is correspondingly less prominent in view of the great importance of powerful competitors such as, for example, Argentina or also the European Community; but it has at the same time firm and above all expandable market positions.¹⁸ Hungary has a considerably higher share with regard to long-lasting sausages, some canned meats and other meat products. The share of meat and meat products in the total Hungarian export from 1975 to 1980 amounted to 11-12 percent on the average, amounting to 25.5 billion forint in 1980. In 1980, Hungary delivered about 364,000 tons of slaughter animals, meat and meat products to foreign countries. That corresponds to about 25 percent of the country's

total meat production. For poultry, the export share in production is usually even higher, namely around 30 percent.¹⁹

During the past decade, Hungarian meat and meat product exports, apart from beef exports that clearly declined after 1975, experienced a dynamic development. It is noteworthy that Hungary, which still was a net importer of pork in 1970, always achieved export surpluses in subsequent years, which in 1980 amounted to about 90,000 tons. In 1980, Hungary's net exports were about six times as much canned meat, over four times as much rabbit meat and goose liver than 10 years before. But the development of the meat and meat product export was subject to great fluctuations from 1970 to 1980, which were primarily the result of temporary reverses of the domestic production but also occurred as a consequence of the prevailing market situation, primarily in the West. This cyclical development affected above all the fresh meat export, particularly of beef and pork, that were subjected to especially strong sales fluctuations. It has again been confirmed that high grade processed goods have a stronger position and their sale is less dependent on cyclical conditions in the international competition on the world market than unprocessed goods.

For years the Hungarian meat export was unable to completely overcome the 1974 decline of its live animal exports on the European Community market, a decline that was caused by the import ban on slaughter cattle and beef and that led to considerable shifts in the country structure of the slaughter cattle exports. Above all, Hungarian exporters did not succeed in compensating for the sales losses through increased substitution with other products, as had been planned. The export decline was not made up until the processing industry was put into the position of being increasingly able to offer more meat products as a result of specific investments and until the European Community canceled the above-mentioned import ban (1977).

In 1980 Hungary sold just over 50 percent of its live animal exports as well as its meat and meat product exports on the Western market and approximately 75 percent against freely convertible foreign exchange. The biggest customer for Hungarian meat exports is the Soviet Union, which by itself gets almost half of the available quantities (in some years the Soviet Union even attains a 63 percent share in pork exports). At the same time, the European Community has a share of about one third. For meat, Italy, Greece, France, the FRG, and Switzerland are Hungary's most important Western markets. Hungary sells processed meat products mostly in the West. The FRG is the most important market for salami and long-lasting sausages (shares: 35 and 30 percent compared to the Soviet Union's 5 and 9 percent).

East and West receive nearly half each of Hungary's canned meat

exports. Particularly in the second half of the seventies, some Arab countries of the Near East, such as Kuwait, Iraq, Syria, Lebanon, etc and other oil exporting countries such as Nigeria and also Mexico and not least the two industrial giants, the United States and Japan, achieved increasing importance in Hungary's meat sales. Market-economy-oriented countries purchased 90 percent of the slaughter sheep, 100 percent each of the slaughter rabbits and live game, 54 percent of the slaughter cattle and calves (primarily Libya and Lebanon) and only 12-15 percent of the hogs for slaughter.

Table 6: Hungary's Net Exports of Meat and Meat Products (in 1,000 tons)

Products	1970	1975	1977	1978	1979	1980	1981
Fresh meat, total	-16	98.2	116.2	92.3	120.8	148.6	135.7
Including:							
beef and veal	13.8	48.2	31.1	24.0	59.6	38.6	32.7
pork	-32.3	38.0	73.0	48.5	62.2	90.0	83
mutton	2.0	2.0	2.0	3.0	3.0	3.0	2.0
rabbit meat	3.0	7.0	11.0	11.0	11.0	13.0	13.0
Poultry meat	57	104	118	121	128	135	157.0
Salami	5.1	5.8	8.7	8.1	8.1	8.1	8.2
Other long-lasting							
sausage types	2.5	2.4	1.9	2.4	2.7	2.8	2.6
Canned meat	5.7	20.6	27.6	29.1	30.5	32.6	30.0
Goose liver	0.2	0.4	0.7	0.6	0.6	0.8	0.8

Sources: "Statistikai evkonyv 1980," pp 313 and 319

"Statistikai evkonyv 1981," pp 246 and 249-250

According to official plan data, Hungary is to increase its live-animal, meat, and meat product exports from 364,000 to 407,000 tons, that is by 12 percent. In this connection, above-average rates of increase are to be expected for slaughter sheep, mutton, rabbit and squab meat, snails and frog exports. Hungary can expect to multiply its exports in these areas. It is to be noted that in the past decade foreign demand for slaughter sheep and mutton as a rule could not be satisfied by a wide margin because of a lack of production capacities. Even then the sales to the West of rabbits, game, snails, squab and goat meat increased rapidly; the extent of these sales was determined in each case for the most part by the Hungarian ability to deliver. There are also some opportunities to expand the beef export on the European Community market, while the beef export can be increased within certain limits to the United States, Japan, Saudi Arabia, Egypt, Iraq, and other countries and not least to the Soviet Union, depending on export profitability in each case.

The trend clearly noted in the late seventies of shifting meat and

meat product exports on the one hand to the oil-exporting developing countries but also overseas and on the other hand to CEMA (primarily the Soviet Union) against freely convertible foreign exchange, is likely to become more evident in 1985. At the same time, meat import, which continues to be considered as small and without significance and basically has the character of enriching the product assortment by foreign specialties, will continue to be maintained at the present level, that is from 10,000 to 15,000 tons per year.

Because of the tight balance of payment situation (growing debt to the West), Hungary, similar to other CEMA countries (Bulgaria, the GDR, Romania, and even Poland), in 1981 and 1982 was increasingly forced to export agricultural products and foodstuffs. But at the present level of food production, this was not noticeable in Hungary in the supply of the domestic market except for a very few high-grade processed goods, such as, for example, salami, Gyula long-lasting sausage or canned ham. With a planned annual increase of agricultural production until 1985 of 2-2.8 percent on the average and of foodstuffs production by 3 percent,²¹ two-thirds to three-fourths of the production growth is likely to be available for export purposes without considerably reducing domestic consumption. However, in other CEMA countries that have not yet found a way to reconcile the overall economic interests with the peasants' own initiative on an economically defensible basis and to modernize and expand their food industries in accordance with demand, the consumers will have to continue to pay for the unavoidable food exports by being denied such items.

FOOTNOTES

1. "Statistikai evkonyv 1981," Budapest 1980 [as printed], pp 62-63, 123, and 125.
2. Hungary's net indebtedness to the West at the end of 1981 was approximately \$7.2 billion. J. Reuter-Hendrichs: "The Western Indebtedness of the Southeast European Countries" in SUEDESTEUROPA 31, 1982, 10, Table 3, p 565.
3. "FAO Trade Yearbook 1980," Table 6.
4. Quoted from NEPSZABADSAG, 28 Mar 80, p 4.
5. "Statistikai evkonyv 1981," Budapest, 1982, p 155.
6. Integrated production systems, such as, for example, the corn, wheat and sugar beet systems and others are being operated for the most part based on the cooperation of several neighboring

or close-by agricultural producer cooperatives or also state farms.

7. E. Antal, "Hungary's Economy in the 5-Year Plan, Part I" in: WD-SUEDOSTEUROPA 30, 1981, 10, p 262.
8. BUDAPESTER RUNDSCHAU, 4/1981, p 8.
9. "Magyar statisztikai zsebkönyv 1981," Budapest, 1982, p 41.
10. G. Jaehne: "Consumption of Foodstuffs in Hungary" in G. Jaehne-E. Antal: "Hungarian Agriculture, 1970-1990," unpublished manuscript, Giessen 1980, p 13.
11. "CEMA Yearbook," Moscow, p 55.
12. TARSADALMI SZEMLE, 3/1981, p 41.
13. TARSADALMI SZEMLE, 5/1981, p 58.
14. According to official statistical data, a total of 10.45 million foreign tourists visited Hungary during 1981. This year Hungary prohibited until further notice all private export of food bought with forints, which affects above all the citizens of the CEMA countries.
15. M. Persotzi: "Anticipated Consumption of the Major Foodstuffs for the Sixth 5-Year Plan," in: ELELMEZESI IPAR, 8/1980, p 295.
16. "CEMA Yearbook," Moscow, 1981, p 229.
17. "Statisztikai evkonyv 1981," Budapest, 1982, pp 120-123.
18. Shares calculated according to "FAO Trade Yearbook 1980," p 52.
19. FIGYELO, 31/1980, p 11.
20. Calculated according to: "Kulkereskedelmi statisztikai evkonyv 1980," pp 256-261.
21. The Ministry of Agriculture and Food: "Agroinform, 1980," pp 22 and 25.

12356

CSO: 2300/288

HUNGARY

FACTS, ORGANIZATION, WORK OF PATENT OFFICE GIVEN

Budapest NEPSZAVA in Hungarian 7 Jun 83 p 12

[Unsigned article: "Activity of the National Patent Office"]

[Text] The National Patent Office (OTH) came into being in 1949 with the reorganization of the Patents Office formed in 1895 and the Patents Court created in 1920.

The basic activity of the OTH takes two directions: it is the national authority for protection of industrial rights and the central state organ for guidance in principle in such matters.

In the most general sense the protection of industrial rights means the activity and the institutional system connected with legal protection of intellectual creations of economic significance and legal protection of distinguishing marks.

According to the list set down in an international agreement the sphere covered by protection of industrial rights includes inventions, consumer patterns, industrial patterns, trade marks, trade names, marks of derivation and indications of origin.

In addition to the above practice the legal protection of innovations is included in protection of industrial rights.

1. The OTH, as the national authority for protection of industrial rights, conducts investigations and passes decisions in the matter of inventions, trade marks, industrial patterns and indications of origin submitted, keeps a record of the rights and takes action in proceedings involving patent, trade-mark and industrial pattern rights which have been issued.

2. The OTH, as the central state organ for guidance in principle for the protection of industrial rights, constantly studies economic regulations affecting this activity and on occasion submits government proposals for their development in the interest of having the conditions for the innovative and inventive work of innovators, inventors and management organizations be in harmony with the needs and changing circumstances and encouraging the spread of such activity and having it be more effective.

One of the most important areas of central state guidance in principle of the protection of industrial rights is continually influencing the innovator and inventor movement in cooperation with state guidance organs and social organs (the National Council of Trade Unions, the Central Committee of the Communist Youth Federation and the Federation of Technical and Scientific Associations). In this area one can list the organization of branch, megye and professional innovation and invention exhibits, exchanges, conferences and competitions, holding propagation of information lectures, publishing guides, giving legal advice and aiding enterprise industrial rights protection activity. The study of achievements, deficiencies and possible hindering factors takes place within the framework of supervisory inspections. National data are collected and published, enterprise, professional and from time to time national innovators' and inventors' conferences are organized and the industrial rights protection and inventors' activities of the enterprises are developed and aided.

Within the sphere of central state guidance in principle of the protection of industrial rights the office guides in principle and, in part, carries out operationally patent documentation and information activity also. Within the framework of this it publishes the SZABADALMI KOZLONY [Patent Gazette] and patent descriptions. Within the framework of the Patent Collection it stores about 15 million industrial rights documents acquired within the framework of an international document exchange from 20 industrially developed countries; the documents are increasing by about half a million per year. These are made available to those interested as a library or within the framework of a computerized service.

The OTH carries out systematic studies for state guiding organs concerning trends which can be established in technical development on the basis of patent information. Study course training and further training of industrial rights protection experts, not only for the office but also for other state guidance organs and management organizations, constitute an important part of its state guidance in principle activity.

In keeping with the character of its activity the OTH has extensive domestic and international contacts, and it develops these in accordance with the possibilities.

The contacts and cooperation forms of the office in the state organization are determined by the circumstance that it is an organ with national authority under the direct supervision of the Council of Ministers. The Council of Ministers exercises supervision over the National Patent Office through the chairman of the National Technical Development Committee.

In its sphere of authoritative activity the office has a legal link with the Capital Court, acting as a forum for legal redress, with representative organs (the Danubia Patent Office and attorneys' work groups) and with domestic and foreign citizens and management organizations appearing as clients.

The OTH cooperates with the ministries and other organs with national authority primarily in the sphere of guidance in principle. It has operational working

contact with the Association of Creative Youth and with the Innovation Foundation of the MNB [Hungarian National Bank]. The office maintains extensive regional contacts, primarily with the mediation of the megye trade union councils.

In the area of patent information services the OTH operates a joint computerized theme watching service with the Industrial Information Center. In the area of training in industrial rights protection the office cooperates with university and its branches of further training institutions and with the Hungarian Industrial Rights Protection Association.

The international contacts of the office are equally broad; in recent decades these have developed within the framework of CEMA, in the area of the activities of the World Organization for Intellectual Property (WIPO, a specialized organization of the UN) and in various bilateral contacts.

An extensive network of international agreements regulates the concrete content, forms and methods of cooperation.

In 1971, in the organizational system of CEMA, there came into being a conference of patent office leaders of CEMA member countries, which organizes cooperation extending to the entire system of patent affairs (legal regulation, study methods patent information, patent expert training, international cooperation with third countries, etc.). Achievements especially worthy of mention were the development of three inter-government agreements and the creation of the International Patent Information System.

The activity of the World Organization for Intellectual Property extends primarily to administration of valid international industrial rights protection agreements and to carrying out international registration tasks. In 1909 Hungary joined the Paris Union Agreement established for the protection of industrial property and in addition it is a member of a number of other international industrial rights protection agreements.

Our world-wide participation in international cooperation in the protection of industrial rights, which creates contacts with about 120 countries, makes it possible for Hungarian inventions and trade marks to have favorable conditions for protection abroad. Especially important in this respect is the Paris Union Agreement which ensures that Hungarian applicants will get equal treatment abroad with local applicants and it ensures the priority of the domestic reporting day within 12 months. Also of outstanding significance are the Patent Cooperation Treaty (PCT), which makes possible the submission of an international patent report for Hungarian inventions, with the intervention of the OTH, and the Madrid Agreement, which makes possible an international listing of trade marks, again with the intervention of the OTH. Our participation in international industrial rights protection agreements creates favorable conditions for learning of the achievements of foreign firms and for cooperation with them as well. More than 50 percent of the clients in Hungarian patent and trade mark proceedings are foreign.

Inter-office contacts dominate in the area of bilateral contacts; in some cases (Hungarian-French, Hungarian-Cuban and Hungarian-Soviet relations) as part of cooperation being realized in mixed inter-government committees. The office cooperates regularly with the offices of seven CEMA member countries and with the patent offices of three additional countries (Algeria, France and Austria) on the basis of agreements.

8984

CSO: 2500/301

FIVE-FOLD INCREASE IN PRIVATE OWNERSHIP OF CARS REPORTED

Budapest NEPSZAVA in Hungarian 9 Jun 83 p 5

[Article by -ben-: "Statistics on Four Wheels"]

[Text] According to the latest returns of the Central Bureau of Statistics, there are more than one million privately-owned passenger cars in Hungary, meaning that every tenth inhabitant of Hungary owns a car. In 1971, the number of people per passenger car was only 40, dropping to 19 already in 1975. While in earlier years a considerable difference could be demonstrated in the number of automobiles used in different regions of the country, lately this difference diminished step by step, thus indicating a lessening of dissimilarities between regional living standards.

While in 1971 blue collar workers had owned 36% and white collar workers almost 59% of the total number of automobiles, ten years later (the year of the survey), there is hardly more than 4% difference between the two groups in favor of the white collar workers. At the same time, passenger car ownership share of retired persons and dependents had almost doubled. Moreover, it is characteristic of the rate of growth of Hungarian passenger car ownership that among nearby European countries, only Czechoslovakia, Greece and Poland can show similar data. In 1981 the Federal Republic of Germany was the European country best supplied with automobiles, with a passenger car for every 2.6 inhabitants.

While there is a significant increase in the number of cars in Hungary (one of the reasons is that the old vehicles are still being used so that practically the number of cars sold per year represent the increase)--a result of rising gasoline prices--the use of automobiles has noticeably decreased. Also, this might be the reason for the fact that, before the price increase, cars in Budapest had been driven more than those in the country, yet by now, this ratio had been turned around. In 1981, the cars of Budapest lagged by almost 300 kilometers behind the distance travelled by cars in the country. During the year of the survey, cars in the capital travelled within city limits 1,200 kilometers less than in 1975. The corresponding decrease in provincial towns has been 100 kilometers and in villages 200 kilometers only.

The inhabitants of Budapest chose streetcars, subways and buses for city transport because it is cheaper, but for long-distance travel the car proves

to be more economical than the railroad or the long-distance bus—provided it involves a family of at least four. The cost difference can be significant, considering express train prices, and compares favorably even by adding the proportionate share of the car's purchase price to that of gasoline.

Thus, the survey finds that it is worthwhile to travel by private car on the roads of Hungary for long-distance trips, but not for short ones. Of course, differences should be taken into consideration. Those living in Budapest, able to save money on local transportation, prefer to use their car for long-distance trips. Yet country people—who have to drive their car several times in order to take care of their daily business—try to save money by giving up long-distance excursion trips by car.

12214

CSO: 2500/300

MERITS OF INCOME LEVELING TAX FOR UPPER BRACKETS CONSIDERED

Fine or Incentive

Warsaw TRYBUNA LUDU In Polish 20 May 83 p 4

[Article by Wieslaw Wesolowski]

[Text] The announcement of the new taxation policy prompted keen public interest. Letters containing comments, proposals, and conclusions are being received by the newspapers, and periodicals, including the TRYBUNA LUDU. Readers agree that the tax policy principles demand resolution, and they accept the general proposals of the tax, however, they have also expressed their misgivings. These concern, among other things, the role of the income leveling tax insofar as high incomes are concerned. In response to our readers' misgivings, today we are publishing a dialogue by two journalists, Wieslaw Wesolowski, and Krzysztof Krauss, who for many years have written on economic topics. We believe that their opposing views and comments will influence the final shape of the laws regulating the tax issues.

According to rather widespread feelings, the tax represents a type of fine or fiscal repression, especially among the workers employed in state or cooperative enterprises, and those in the socialized sector, who generally share the conviction that money put in one's pocket will only serve individual needs, whereas concern for the general welfare belongs to the nation as a whole.

This view includes the fairly recent argument associated with the repeal on the tax on bonuses, as well as the awareness of the losses suffered by the public because of poor management, and the growth of speculative fortunes. It is also worthwhile in my opinion, to consider the initial circumstances present, for example the reluctance and lack of tradition insofar as the taxing of one's wages is concerned, during the implementation of the general income leveling tax.

The new income leveling tax differs from the old one through a minimal number of exemptions and reductions. Raising the annual level established at 300,000 zlotys according to the proposal presented for comment before submitting it in the Sejm, qualifies the unemployed wife and children, the income earned on free days, state and jubilee awards, social benefits, and up to 50 percent in honorariums for creative work, by way of costs incurred in the earning of this revenue, and the expenditures for housing construction. Others should be taxed initially according to a gradual progressive tax (a 7,200 zloty tax on income in excess of 36,000 annually, and 13,200 on income above 60,000 zlotys annually), followed by a steeper progression. Earning an income of over one half million zlotys annually in the socialized economic sector is practically impossible, because the tax on 720,000 zlotys is 200,400 zlotys, and 700 zlotys for every thousand over this amount. While in the next tax bracket, the tax assessment would be 750 zlotys.

Taking the situation of the average family into consideration, the maximum salary is standardized at approximately 40,000 zlotys monthly, or 3.5 times the average, which corresponds to the entry in the Ninth Congress resolution. A remark concerning the margin, here it is necessary to differentiate the tax's practical blockage of the high end of the salary scale from the amount free from taxation, which according to the revised proposals exceeds twice the average.

In Light of Statistics

In this manner the new tax formation will increase the number of taxpayers concerned. The numerous former exemptions have decreased the number of taxpayers, those workers burdened with the income leveling tax decreased to 35,000 last year, and in total this group paid one half less than the 7,500 person group involved in specialized agricultural production, and commonly referred to unpolitely as "vegetable growers," who provided 40 million zlotys for the State Treasury, and will continue to be subject to this tax for a while longer, until they are covered by the agricultural sector. It is also possible to imagine tax evasion by the thousands of taxpayers, especially those who have income from several sources, and this is owing to loopholes.

The Minister of Finance expects that the income leveling tax will encompass approximately 80,000 socialized economy employees in the second half of the year, that is if the Sejm adopts the resolution. This figure will certainly be verified by a system of stricter payments. Last September even before the wave of payments, salaries over 24,000 zlotys were earned by 221,000 workers, wages over 30,000 zlotys were earned by approximately 88,000 of which almost 79,000 were employed in the coal mining industry, with high wages primarily due to work on free days, and exempt from taxation. In any case it appears doubtful that a prediction error of similar magnitude would be committed as was the case with early retirement. Even if this tax were to include approximately 120,000 workers, it would barely correspond to one percent of those employed. Would it then constitute a substitute or unrealistic theme?

No, since the income leveling tax will affect the employed individuals, especially the workers, the most efficient, hard-working and most qualified group. And if the immediate objectives must be approved by the restoration of fiscal balance through the equitable distribution of the costs incurred by the crisis, it is worthwhile to realize the danger and carefully observe the development of the situation. Insofar as it concerns antiinflationary behavior, then even one-half billion zlotys collected in this manner from the workers in the socialized economy will not reduce the commodity gap estimated at 500 billion zlotys. The linkage of the concept of fairness together with income earned through efficient work is not really a step forward, especially considering the income that is dishonestly earned, and the general disruption of the linkage of work output and wages on a broad economic basis.

Specifically it is this last fact which occasions the fact that the implementation of the tax on high earnings, prior to adjustment of the wage system can create the impression of doing things backwards. In reality, earnings of 40,000 zlotys are unrealistic for many millions, all the more so if they are a result of highly efficient and well-organized work by the chief engineer of a coal mine or a rescue worker, and they should set the precedent.

My Hopes and Anxieties

It is therefore necessary to observe closely whether or not this egalitarian decision brings about such uniformity of salaries beyond which combined with the effort and risk involved there will be few eager workers. These are real anxieties concerning the implementation of the 300,000 zloty ceiling on tax exemption until the end of 1985, if wages are not simultaneously linked with production, one may find numerous groups in the tax bracket, and little incentive to work efficiently. Finally the most important anti-inflationary task concerns increased production and work efficiency.

These warnings and misgivings, however, do not indicate any opposition to the proposal taxing amounts over 25,000. This is an immediate necessity, resulting from the country's market and financial situation, perhaps one and then again not one of the functions involved in the resolution of the crisis.

The current modification of the tax is being considered as an initial step in the implementation of a universal income tax representing a form of individual participation in the financing of public and common objectives. This is a well-known and modern concept, and also one requiring a change in views and customs. It can be treated as a reform supplement in a situation where the central leadership resigns its centralized control over prices and wages and attempts economic methods of activity. The fact of the matter is that it must not harm the reform by standardizing wages. Moreover, it does not appear that the current structure of the income leveling tax includes revenues obtained from black market services, such as varnishing and putting down parquet flooring after working hours by individuals who in addition to holding professional positions are good with their hands.

In Spite of Unquestionable Merits...

The modification of the already well-known tax belongs to the unquestionable merits considered during discussion of the proposal, including the legibility of the regulations, simplification in calculating the tax due, few exemptions and an increase in the fiscal gap in comparison with the initial concept which involved taxing incomes above the 50 percent average, rather than implementing a new tax.

The divestiture of the tax's social functions is also considered to be one of its unquestionable merits, especially the conversion of incomes of workers with families, such proposals were made, which would convert the already modified principle of wages based on work into one based on the family concept, and would thereby create a rise in poverty equal in income and destitution with an aversion for effective work output. Joint features linking the income leveling tax with modification in the taxation of trades, private commerce, and services as well as agriculture, present an opportunity for tax policy cohesiveness and stability.

Yet the basic issues concern the response to the question: Will this tax create barriers for profitability insofar as additional productivity, qualifications, and remunerative initiative is concerned?

Economic Necessity

Warsaw TRYBYNA LUDU in Polish 20 May 83 p 4

[Article by Krzysztof Krauss]

[Text] The question presented by Wieslaw Wesolowski on whether or not the proposed income leveling tax will create barriers insofar as profitability on additional productivity, qualifications, and remunerative initiative is concerned, evokes frequent comment. I believe, however, that by presenting this question one must also submit two others. First, what would happen if such a tax were not implemented. Secondly, will the authors of the current proposal assist in preventing the possible weakening influence this tax may exert upon wage motivation.

I wish to state distinctly that I understand and accept the concept of the income leveling tax for the high income brackets. It is evident from the 1983-1985 National Socioeconomic Plan adopted by the Sejm, that even though market equilibrium will be achieved primarily through increased production and services, there is no chance that the gap between supply and demand will be closed in the next 3 years. It will be necessary to utilize extraneous sales methods in order to influence monetary and market equilibrium on a limited scale, but nonetheless significant, for a short while longer.

Prices, Wages, Taxes

In practice, two methods for halting the rise in demand come into play. The first concerns the rise in prices, and the second is the containment in the rate of increase of nominal wages. Neither of these methods is free from negative social and economic consequences. Price increases denote a rise in the cost of living, and the hardest hit would be those families who are the poorest.

On the other hand, containing the rate of increase of nominal wages indicates a tough wage policy. This in turn, halts increased production and weakens the chances for market sales of goods.

It is necessary to do everything possible in order to limit the scope of implementation of these two auxiliary methods for market equilibrium. The establishment of the universal income leveling tax for the high income brackets limits the need for the implementation of price increases or for freezing wages, by implementing this law and thus eliminating surplus money from the market which is suffering from shortages. Wieslaw Wesolowski described in a fairly general manner the tax revenue influx into the budget. According to the Ministry of Finance's appraisal, this tax would remove approximately 10 billion zlotys from the market in the next 3 years. This is not a staggering sum, nevertheless it counts in the overall budget.

The matters which I refer to were only mentioned briefly by Wieslaw Wesolowski in his article. As I understand, he agrees, though with reservations with the view that the implementation of the income leveling tax for high income brackets would be justified. He maintains, however, that before such a tax could go into effect it would first be necessary to deal with the fairly frequent phenomenon of the high incomes of some fellow citizens who do not work, as well as the regulation of wages within the socialized economy.

Unfounded Misgivings

I will overlook the fact that Wieslaw Wesolowski bases his argument on miners, who because of exceptionally dangerous and difficult work would for the most part be exempt from the income leveling tax. This is the consequence of the plan proposed by the authors anticipating tax exemption on bonuses and wages for work on free days, Saturdays, and holidays. The earnings of this occupational group would surpass the 25,000 zloty monthly average primarily because of work on free days.

I also overlook the fact that not everyone who earns less, does so because he is unproductive. There are simply different types of jobs, and not every job demands the same type of effort, qualification, risk, etc. Therefore incomes must also vary, and all essential jobs must be carried out by someone.

I believe, however, that the author's thesis, that first it is necessary to deal with those who have enriched themselves without working, induce those who prefer to earn less to work more efficiently, and in general resolve the wage issue, and only then consider whether or not the high incomes should be taxed, was not thought out carefully.

Certainly one should not accept the speculative and parasitic phenomena. Surely we must also strive for modification of the internal wage structure of the enterprises, as well as the wage proportions among the individual enterprises, branches, and departments so as to make them more logical and economically rational. This, however, has nothing in common with the eventual tax on high incomes. These are simply two, and strictly speaking three different matters which cannot be considered as one, but must at the same time be resolved together without delay.

I share, however, Wieslaw Wesolowski's hopes, that in the form currently proposed by the Ministry of Finance, the income leveling tax can with time begin to exert a negative influence on efficient work output and improved economic performance in the factories, but for a totally different reason than that stated by the author.

Now I would like to make several comments on this point.

What Is Worthwhile Discussing

I believe that the Ministry of Finance failed to draw the appropriate conclusions concerning the highly critical appraisal of the original concepts on the universal income leveling tax, formulated during the recent Sejm debates on the 1983-1985 Plan, and the National Workers' Aktiv session. The reservations of the session delegates and participants were aroused not only by the very concept of the tax of the tax on high income, but the proposed ceiling on the high incomes.

The session delegates and participants determined that fixing the income ceiling at 50 percent over the average wages of the socialized sector would leave quite a narrow field of maneuverability for equitable compensation for more efficient or simply arduous work. It was determined that while certain taxes on very high earnings do not act adversely on work output, since even after taxes these incomes are quite attractive, the prospect of sharing profits which are only slightly above the average has a destabilizing effect upon the workers. Currently, for example we can consider odd jobs not encompassed by any financial records, and thereby not subject to taxation.

We find that the proposals prepared by the Ministry of Finance until 1985 call for a uniform and unflexible ceiling for earnings exempt from the income leveling tax, rather than a variable ceiling which would fluctuate depending upon the median income. This rigid ceiling in effect until 1985 would be fixed at 25,000 zlotys monthly. At this time it does in fact correspond to twice the average salary, but will this hold true in 1985?

If this complex plan for reducing the rate of price increases to an average of 11 to 13 percent annually during the years 1983-1985 is successful, as predicted by the Sejm resolution, then the cost of living will increase by 37 to 44 percent in the next three years. At the same time, if the real value of the average salary in the socialized economy is maintained at the 1982 level, the assumption being that average real wages will rise gradually next year or at the very latest by 1985, by the mid-1980's the average salary should be at least 15,229 to 16,007 zlotys, and 16,855 to 17,713 zlotys in the industrial sector.

Together with this level of median wages in 1985, I repeat that based upon the real value of comparable wages from 1982, the average monthly ceiling of 25,000 zlotys exempt from taxation, as proposed by the Ministry of Finance will not be comparable to that established in 1983. Here I see the danger of an adverse influence on motivating work productivity.

This is not, however, an argument against the establishment of the universal income leveling tax, or for its postponement for the unspecified future. This is only an observation that the specifics of the concept must be discussed further.

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MINING-POWER INDUSTRY MINISTRY RESPONDS TO PRESS CRITICISM

Ministry Press Officer's Letter

Warsaw ZYCIE GOSPODARCZE in Polish No 19, 8 May 83 p 5

[Press letter by Mining-Power Industry Ministry spokesman, Janusz Wleczorek]

[Text] ZYCIE GOSPODARCZE No 16, of 17 May 1983, published a report from a session of the Sejm Commission for Mining, Power and Chemical Industries, entitled: "Two Points of View" [published in JPRS East Europe Report: Economic and Industrial Affairs]. I feel compelled to present the Mining-Power Industry's stand on this issue.

Firstly--Mr Slawomir Lipinski unfortunately is not familiar with or does not understand the sense and specifics of the reform in mines and power plants. He writes: "The proposal to change the statute on state enterprises, fundamental to the economic reform, by excluding from it enterprises of basic importance for the fuel and power economy, was also approved without any discussion. Thus the exclusion of the mining-power industry from the reform gains legal localization (legalization?--ZG). What economic effects abandoning the reform by key economic subsectors will bring, the future will show, but it is easy to see that these results will not be positive."

I am sorry to say Mr Lipinski forgot to inform the readers of ZYCIE GOSPODARCZE that the day before the commission's session, the Subcommittee for Mining and Geology deliberated jointly with the Subcommittee for Power Engineering and Nuclear Energy and during this debate which lasted many hours, the project of a plan for the years 1983-85, as well as proposals for changes and amendments to the project of the Sejm statute on enterprises, particularly important for the fuel and power economy, were discussed in detail. The presented conception results directly from the addendum No 6 to statute No 21 of the Council of Ministers, regarding the NPSG project for the years 1983-85.

The ministry is not "abandoning the economic reform," as the article's author suggests. On the contrary, it implements it consistently, retaining, however, the specifics of the functioning of mines and power plants. In the report "On the Implementation and Effects of Economic Reform in 1982," prepared by the government plenipotentiary for the principles of economic reform in areas

characterized by technical-economic specifics, ought to continue. It is particularly recommended that the conception and projects of legal regulations, adapting the systems-type solutions to organizational-technical specifics of the coal mining-power industry, be prepared" (point 35, page 164).

The implementation of the reform did not start by breaking up organizational structures and coproduction ties, but by introducing new economic-financial mechanisms. Our assumption is that the reform is not an end in itself, but only a means. Results in production and stabilization testify that we have chosen the right direction. As it is commonly known, production stabilization is very high, despite the familiar difficulties which have not spared the mining-power industry.

One can only wonder why Mr Lipinski, when discussing such a complex problem in a professional publication, did not take the trouble to familiarize himself with the basic assumptions of the reform in the mining-power industry. The author's treatment of the topic itself is misleading and does disservice to the very idea and goals of the reform, by also showing in a biased light the work of the Sejm commission and of the mining-power industry.

Secondly--the author tendentiously and untruthfully reported the commission's session and the statement by the mining-power industry minister, Gen Div Czeslaw Piotrowski. The author concluded incorrectly that the ministry's conception concerning cooperation between the ministry of agriculture and the food economy, and the ministry of construction, in outlays for investments connected with supplies of electric power, heat and gas to apartments and farm houses, will cause an increase in prices of housing and food. For it must be understood that the assumed development of housing construction and the food economy for 1983-85 will cause a high increase of demand for electric power, heat and gas. The mining-power industry ministry will not have the appropriate investment funds at its disposal in that period.

In this situation it is obvious that joining in the implementation of the fuel-power program lies in the construction industry and agriculture's own interests.

This approach is dictated by concern that the goals for the years 1983-85 in the above fields be accomplished. Thus the thesis about the increase of housing and food prices--as the author suggests--has no connection with it whatsoever.

Thirdly--the author writes: "According to Gen Piotrowski, the savings program is not very realistic because 'the so-called economic instruments, fashionable today, are but slogans,' and there are no administrative ways of forcing enterprises to implement the savings program. With enforcement impossible, economic effects cannot be counted upon."

The fact is that Minister Piotrowski did not speak at the Sejm commission's session about savings in general, but about savings with regard to fuels and power--which the article of course does not mention.

The fundamental importance of fuels and power in the national economy dictates the necessity of introducing rigorous discipline in their management.

In some countries richer than ours, for example in the GDR, such principles are already functioning successfully. Our industry's management of costly power, on the other hand, leaves much to be desired. Nowhere else in the world does demand for power have such fluctuations in a 24-hour period as in our country, reaching up to 20,000 MW at peak hours and about 10-12,000 MW at night. This testifies to an exceptionally wasteful use of electric power, particularly by industry.

The work period of our industry basically does not exceed one shift, and in this situation to maintain the availability of equipment in industrial enterprises, metallurgy, chemical and other industries, absorbs much power.

Thus the waste of fuels and power also results from, among other things, the necessity of maintaining power units in operation merely so as to meet the power needs in peak hours. A power unit cannot be shut off arbitrarily several times a day. Turning on and off a boiler with the power of 200 MW unproductively absorbs additional tons of hard-to-get mazut and, what's more, costs about 250,000 zlotys. The point is, therefore, to introduce a limited and economic system of power consumption by the industry and allow for a more uniform distribution of the demand by industrial users during a 24-hour period, which unfortunately in the current economic and price mechanisms cannot be achieved without an administrative order.

Further on in his report the author simply falsified the sense of the statement and data cited by the minister of mining-power industry, Gen Div Czeslaw Piotrowski, by writing: "The minister admitted that in this regard savings, the mining-power industry has still much to do. Suffice it to say that the latter consumes itself and uses up during transmission as much as 18 percent of the electric power it produces (and only recently this indicator amounted to 10-12 percent)."

It is commonly known that the mining and power industry worldwide is very power-intensive. The power industry in Poland uses for its own needs about 7 percent of electric power and transmission losses in the networks amount to about 11 percent, thus about 18 percent in total. In recent years a decline of these losses is being noted. Thus it is untrue that the power industry ever used for its own needs including transmission 10-12 percent of power and this was not stated by Minister Piotrowski in his pronouncement before the Sejm commission, as Mr Lipinski suggests. Considering the present level of world technology, it is unrealistic. The lowest network losses increased by own needs amount now to about 15-16 percent in leading countries.

The ministry's management is aware of the shortcomings with regard to material and equipment quality in its subordinated enterprises. The possibilities of economically managing reserves, given the scale of this economy subsector's potential, are large but not frighteningly so, as Mr Lipinski described them. At the commission's session the subsector's saving program was highly evaluated. This was brought up by Deputy Gajda--something Mr Lipinski does

not mention at all. I will give here as an example the fact that in this past fall-winter power peak period, the equipment failure rate in power plants was reduced by 46 percent while at the same time fuel consumption was reduced by 2 grams per 1 kWh produced. This resulted in a total savings of 300,000 tons of hard coal and about 280,000 tons of brown coal. Recently created enterprise savings programs will further promote savings activities.

Now one can say that there are "Two Points of View," only their meanings must be reversed. The first one is a view through the eyes of the ministry responsible for supplying electric power, heat and fuels. The second one--through the eyes of Mr Lipinski, who into this very serious problem brought nothing but falsifications. Thus one must ask the question who and what is served by publishing such articles?

The author of that report, by falsifying the image of the mining-power industry ministry's work at the same time incorrectly presents the course of the deputies' deliberations. This puts into question the credibility of the weekly bearing the obliging name: ZYCIE GOSPODARCZE.

ZYCIE GOSPODARCZE Counter-Reply

Wzrost ZYCIE GOSPODARCZE in Polish No 19, 8 May 83 p 5

Insigned commentary

Text The first charge formulated by the Mining-Power Industry Ministry press spokesman concerns the implementation of the reform in that ministry. Mr J. Wleczorek's citing of the government plenipotentiary's report was intended as a proof--on the one hand--of the conformity of the ministry's actions with the reform's assumptions and the government policy in this respect. On the other, it is proof of the erroneous criticism made by the ZYCIE GOSPODARCZE journalist, who in the exclusion of the mining-power industry from the statute on state enterprises, saw proof of a divergence from the reform. It is, however, an unconvincing proof because separate systems-type regulations, which the plenipotentiary's report mentions, have nothing to do with the statute on enterprises.

We never questioned the technological-economic specifics of mines and power plants and the advisability of applying systems-type solutions to them different from those usually applied. These different solutions have in fact been applied since the beginning of 1982. It is also a fact that the coal industry continues to receive budget subsidies. In 1982 these amounted to 24 billion zlotys, that is 24 percent of the total subsidies for the industry. This situation proves that economic-financial solutions adopted for the mining industry are imperfect and an urgent need to modify them again is becoming apparent. We believe that in order to escape new mistakes this issue, which is extremely important for the whole economy, ought to be discussed publicly. We shall be happy to play host to such discussion. We suggest that it be opened by a highly professional publication presenting the ministry's recommendations.

on the other hand, we do not believe that excluding mines and power plants from the statute on enterprises and thus from the statute on workers' self-management (this relation results directly from article 48 of the latter) is correct. Our stand follows the treatment of the reform as a process which greatly surpasses the very important but relatively narrow frames of the economic calculus. According to the Resolution of the PZPR 9th Congress, "the basic goal of the reform is to assure the high social effectiveness of management (...) through socialization of planning (...) and creating conditions for independence and self-management of enterprises operating on the principles of self-financing" (chapter V point 1).

Statutes on enterprises and self-management--documents whose character is political rather than systems-type, are the basic tools of the reform's goal defined above. The intention of the party and the legislators is that they should provide the main legal protection against a return to the autocratic and arbitrary wielding of power and thus against the recurrence of socioeconomic crises. In any case this is how the issue is presented in "Directions of Reform", and whence the criticism by Mr S. Lipinski as well as by deputy members of the Commission on Self-Management, among others (see ZYCIE GOSPODARSTWA No 17/1983).

The second issue in the letter concerns investments. The needs of the fuel-power economy are very large in this regard. There is much to be done particularly in the sphere of efficiency. The Planning Commission's figures show that the coal-intensiveness of the national income increased in 1982 by nearly 17 percent, while energy-intensiveness by nearly 11 percent. Mining and power industries have a large share in this, and we will discuss it in a moment. We understand of course the infrastructural character of the fuel-power economy. Nevertheless the suggestion that for this reason all coal recipients ought to participate directly in mining and power investments (they already participate indirectly, by way of subsidies via the budget) does not seem justified to us on either economic or social grounds. For can we expect that coal mining should cofinance investments in food production only because miners are consumers of this product? No modern economy functions on the principles of such advanced disintegration of its branches. How can a socialist economy function in this way? The problem however has its emergency aspect. As is known, the Sejm, when accepting the NPSU variant, which consists of protecting consumption, established a certain fixed structure of investment outlays: 30 percent for housing construction, 30 percent for the food economy, 14 percent for the fuel-power base, and 26 percent for other purposes. Singling out such considerable funds for the mining-power industry needs in this variant of the plan has its economic and social significance.

In this light, the mining-power industry ministry's suggestion that the fuel economy and housing construction give up a part of their investment needs in behalf of participation in developing the fuel-power base is equivalent to a demand to change the structure of investment outlays established by the Sejm. This change would not strengthen the protection of consumption, but would threaten to make it weak.

Let us leave for another occasion--although this question is worth investigating--the question of why in the spokesman's opinion the considerable funds allocated in the plan to the mining-power industry will not suffice to satisfy society's basic needs. Let us ask: From what source should possible contributions from the agricultural and the food production industry, and the building and construction materials industry be financed? As is known, the production of food and housing is either directly or indirectly (through low-interest or partly annulled loans) to a large degree financed by the state. If these areas are to manage additional funds for investing in the fuel-power base, they must get these funds from somewhere--either from higher subsidies, or from price increases--unless they are to curb their development. But let us say it openly that the goal of reaching independence in the area of food production is postponed to a very far future--so far that this goal becomes a slogan rather than a directive for the economy.

In the course of the latest Sejm plenary session, the chairman of the Planning Commission, Deputy Premier Janusz Obodowski, stated very clearly that in a budget stretched to the outmost, every new expense is possible only when an income of at least the same amount is simultaneously assured. For anyone who understands the country's economic-financial situation, this statement could not be surprising. Thus Mr. S. Lipinski's pointing to the second possibility (price) was correct, economically speaking.

The third group of charges concerns efficiency. We agree with the mining-power industry ministry that power consumption in Poland is irrational. However we disagree with the ministry's spokesman as to the methods of restoring this state of things. Irrationality and even downright waste in power usage, which Mr. J. Wieczorek is writing so much about, came into existence in the period of orders-type, administrative management of industry. Precisely this orders-type system is one of the basic causes of the present situation. It may be that current economic incentives, applied prior to any production results, are too weak. If so, we think they should be improved and strengthened rather than replaced by methods which proved ineffective in the past even though they were used under the slogan of increased restraint, among other things.

Perhaps some thought should be given to the question of whether it is more profitable to invest in better management of the power we already produce, or whether we should continue to increase production capacities? Major studies have computed that investments in savings are more profitable. Restraint is indispensable, of course--but so is cost efficiency.

While we are on the subject of restraint in power consumption and savings, we must agree with the opinion of Mr. J. Wieczorek that the mining-power industry has still much to do in this field. The press spokesman questioned the inhibitor of the industry's own power consumption and losses as presented by Mr. S. Lipinski (see the way, the annotation in parentheses was to show this author's right was he correct). In the GIEP [Main Institute for Fuel Management] report, "Fuels and Power Management in 1961," it is stated on page 11 that in 1961 the transmission losses calculated in thermal

conversion amounted to 26.9 percent of the primary power consumed in the country, while 2/3 of these losses were in public-utility power system (the rest in the coke gas and refinery systems). It is easy to calculate that 2/3 of 26.9 amounts to exactly 17.9 percent namely more or less the amount given at the commission session by Minister Czeslaw Piotrowski. By using the same methodology one can figure that in 1970, the transmission losses in public-utility power system amounted to 12.3 percent of the primary power. It results from the above that the error in the ZYCIE GOSPODARCZE journalist's calculations was slight.

On the other hand it is difficult to agree with the ministry's spokesman that "in recent years a decline in those losses has been noted." The figures quoted above show that rather than a decline, a considerable increase of transmission losses in the public-utility power system has taken place. In absolute quantities these losses amounted to about 13.6 million tons of standard fuel in 1970 and as much as 28.6 million tons of standard fuel in 1981. Power production increased in that period by 86.6 percent and losses calculated according to the method used by the Institute--by 110.3 percent. For those who like to count let us add that in transaction prices in 1981 a ton of standard fuel included in hard coal was worth about \$70, and we can see the true proportion of those losses whose increase was signaled by Mr S. Lipinski and the savings about which Mr J. Wieczorek writes.

We have always held in high esteem the work of miners and power engineers. We have expressed it many times by writing about the hard work of people in those professions and by asking that coal be valued as a resource which should also serve many future generations. Such an attitude toward work--tires and the fruit of their labor does not exclude, however, a critical look at the conceptions of development and functioning of these subsectors and their social effectiveness.

Janusz Wieczorek, in the last sentence of his letter, cast a critical look at the credibility of ZYCIE GOSPODARCZE. Because we believe that he expressed his concern about the social effectiveness of our publication in such a manner, we treat his remark with full seriousness and wish to issue an invitation to an exchange of views in the columns of our periodical.

ROMANIA

BANK CHAIRMAN SUGGESTS IMPROVEMENTS FOR AGRICULTURAL SECTOR

Bucharest ROMANIA LIBERA in Romanian 4, 5 May 83

[Interview with Ion Rusinaru, chairman of the Bank for Agriculture and Food Industry, by Ion Marcovici]

[4 May 83, pp 1,5]

[Text] The efficiency of any economic activity is mirrored in the results obtained by units, in their financial situation, which, as a rule, are reflected in their bank accounts.

The Bank for Agriculture and Food Industry, as a specialized body of the state for financing and crediting production and investment projects in agriculture, the food industry, forestry and water management, by exercising its duties consistently applies the party leadership's instructions of applying in each unit the requirements of the new economic-financial mechanism, of self-administration, self-management and self-financing. A discussion with the chairman of the Bank for Agriculture and Food Industry is designed to provide an analysis of the situations that were described and discussed at length during the proceedings of the National Party Conference and at the enlarged plenary session of the National Council for Agriculture, Food Industry, Silviculture and Water Management.

[Question] What financial support is the bank offering in 1983 and how will this support be assigned to agricultural sectors?

[Answer] As is known, agriculture is a basic economic branch, one of the three national priorities -- raw materials, energy, agriculture -- under this five-year plan, priorities which are constant concerns for the party leadership, for Nicolae Ceausescu.

The further expansion of this branch is based on the documents of the 12th RCP Congress and of the National Party Conference, the directives of Nicolae Ceausescu, for the materialization of the new agricultural revolution and the firm implementation of the new economic-financial mechanism, strengthening of worker self-administration, self-management, self-financing and self-supply of the population.

For the further expansion of the technical-material base of agriculture and food industry, 185 billion lei will be invested under this five-year plan, which accounts for more than the appropriations in the first four five-year plans combined.

The funds for development and the investments that will be achieved in agriculture in 1983 are integral parts of the uniform national plan for the socioeconomic development of the country and of the 1983 plan for development of agriculture and food industry.

The Bank for Agriculture and Food Industry, through the leverage of credit, clearing and the other banking operations, in 1983, also, assists the units in agriculture to complete the investment and production assignments and deliveries to the state fund of all the output contracted for. The advance credits will be granted on a phased-out basis, for the expenditures specified in the production plans and the income and expenditure budgets, in light of the vegetation condition of crops and the achievement of the livestock productions. The technical-material base provided agriculture and the food industry, the significant funds envisioned in the investment plan generate great responsibility for the managing personnel and financial executives in agricultural units and in the bank.

[Question] However, I must state that the "credit leverage" is not properly used by agricultural units, the loans are not always and everywhere managed adequately and sometimes are used for "patchwork" and not for vigorous and beneficial economic initiatives.

[Answer] True, it must be pointed out that the problem of credit, of financial assistance granted by the state is not yet regarded by some leading bodies of agricultural units in light of economic-financial self-management. Often, attempts are made to resolve organizational problems, problems of mismanagement, by using the bank credit. Let us remember that every credit translates into an extra expense for units, by the interest which they pay.

Practice has demonstrated that the units that firmly applied the new economic mechanism increased their own funds year by year and resorted less to credits. Many units now have their own available funds for which the bank provides them sizable interest.

[Question] Could you give us a few positive examples of agricultural units that have most-effectively and thriftily invested the credits provided by the bank?

[Answer] There are many units financed by us that have amply expanded their technical and material base and, as a result of appropriate structuring of their activity, have been obtaining great output every year and are paying the credits back on time: state agricultural enterprises of Izvoru - Arges County, Falticeni-Suceava, Casimcea and Sarinasuf-Tulcea, Mogosoaia-Ifov Agricultural Sector, Bacau ISCI, the agricultural production cooperatives of Pogoanele-Buzau, Dor Marunt, Calarasi County, Scornicești and Stoicanesti-Olt, Petresti-Dimbovita, G. Doja-Ialomita, Gherghita-Prahova, Dumbraveni-Suceava, Draganesti Vlasca-Teleorman, Dudesti-Ifov Agricultural Sector and the intercooperative economic associations of Orastie, Tomesti-Iasi, "Lumina"-Constanta County, Martinesti-Vrancea, Salcia-Teleorman County, and many more.

[Question] In many units, in terms of production or investments, the results are not equal to our state's material and financial efforts.

[Answer] There still are managerial bodies of units that did not take firm action to complete the production assignments for maintaining the financial balance, in both the state and cooperative agricultural sectors. Examples include the state agricultural enterprises of Rânov-Brasov, Miercurea Ciuc, Agnita Sibiu County, Bozovici-Caras Severin, Catalina-Covasna, the agricultural production cooperatives of Cateasca-Arges, Cimu-Braila, Murgesti-Buzau, Fundulea and Tamadau-Calarasi, Dorobantu-Constanta, Giurgeni-Ialomita, the intercooperative economic associations of Peciu Nou-Timis, Tortomanu-Constanta, Barcanesti-Prahova, Rupea-Brasov, Sohatu-Calarasi, and so on.

[Question] It is known that there are now many eroded lands in agriculture. What investment funds were assigned for improvement of soils, of eroded lands and how is this program furthered?

[Answer] A uniform program was outlined in this area, which was approved by the higher leading body of the party. It specifies that this five-year plan will see the completion of drainage projects over 1,324,500 ha, including 184,000 with local forces, supplemental drainage work in existing systems on another 512,100 ha and closed drainage on 141,300 ha. These projects will be carried out specifically in the counties with excessive moisture in the Danube Plain -- Calarasi, Braila, Olt, Teleorman, Dolj and others, and also in the western plain -- in Bihor, Arad, and Timis. Hence, the necessary funds are provided for in the five-year plan. Consequently, by the end of this five-year plan the area under drainage projects will cover about 3.6 million ha.

Moreover, projects to combat soil erosion in the agricultural area will be completed over 1,012,300 ha, including 375,000 ha involving the efforts of agricultural units, and for this purpose the necessary funds were specified in the five-year plan. This area adds to the existing systems, of 1.610 million ha, thus bringing it, by the end of the five-year plan, to 2.640 million ha. The agricultural units, all villagers must answer the call to actively participate in completing these projects so that not a bit of land is wasted and all is productive.

[Question] What were the quantities of chemical fertilizer assigned to every hectare in agriculture in 1982 and what are the projections for 1983?

[Answer] In 1982, agriculture received 143 kg of active substance for every hectare and significant increases are anticipated in 1983. However, chemical fertilizers are used differently even in units within the same sector and this largely accounts for the differences in production levels.

For the purpose of obtaining high outputs with high efficiency the administration of fertilizers must be based on soil testing analyses and the needs of each crop and not as it is being done in many units where agronomists apply them without basing them on the criterion of production optimization and efficiency.

[Question] In the livestock sector, it is known that the animal census early this year indicated a minus for the head of cattle. What has been done to improve the situation?

[Answer] Efforts are being made, in line with the directives given by the party leadership, to increase the livestock and upgrade quality. However, there are state

and cooperative agricultural units where there is less concern for upgrading the quality of livestock. For instance, in many agricultural production cooperatives and state agricultural enterprises, livestock still contains a large number of unsound, sick and old animals with low production, that use forage on a non-cost-effective basis -- a practice which was severely criticized by the party secretary general. Furthermore, not all the members of medical-sanitary staffs in both production units and veterinary-health centers always fulfill their service duties. However, it has been found that the Council of State decrees of 28 March 1983 on contracting for and procurement of animals, fowls and livestock products, and declaration of animals, removal and slaughtering of cattle and horses are strong stimulating factors among animal breeders. I feel strongly that the results will not be long in showing.

A special problem involves foddering of milch cows. In this area, in many state and cooperative agricultural units the outputs were low because of poor concern of the units' managerial bodies for developing and fertilizing the lands for ensuring the necessary seeds, specifically of alfalfa. There still is an erroneous position of concentrating cows in large units and stable foddering by excessive use of concentrates, received on the basis of allocations. This has resulted in the unit managers' lack of concern for growing their own bulk forage, for using all the sources for animal grazing.

In regard to other problems of assistance given to the various agriculture sectors, there is the second part of the interview.

[1 May 83, p. 3]

[Text: Question] How do you assess the unfolding of the activity of agricultural animal-raising investments in agricultural units?

[Answer:] A major line of action specified by party secretary general Nicolae Ceaușescu on the implementation of the investment program involves better use of the funds for the socioeconomic development of this country, implicitly of agriculture.

It is known that investment projects, throughout the course of execution, mobilize large amounts of materials and labor without in exchange providing any immediate useful effect but providing it only after the work was completed and the unit was put into operation. That is why the bank is not indifferent as to the way in which the investment options are determined, the period involving the allocation of resources, how are they spent and, specifically, what results will be obtained and in what span of time. In connection with these considerations the bank, before the decision is made on developing new production facilities or expanding existing units, needs to thoroughly analyze the problem of facilities in operation, in terms of full utilization with maximum efficiency, of full use of production areas, of reserves which have not yet been used.

However, we must point out that in agriculture also the funds allocated for investment projects have spread over a large number of units without taking into consideration the prospects for actual completion of the construction-assembly units and the users' input in their completion. As a result of this situation, currently a great number of investment projects, in state and especially cooperative agriculture, started 1-4 years back, have not been completed.

In 1983 all the investment activity must be directed toward completing the backlogged projects, their commissioning and ensuring of conditions for reaching the planned parameters. We cannot understand the attitude of some county agricultural bodies that, even though they have uncompleted investment projects and the existing ones are not used at full capacity, are making requests for commencing other new projects.

In 1983, the attention of banking organs will be focused on concentrating material, financial and labor assets on completing the projects that did not go into operation on schedule, on prompting the design and construction units to systematically adopt new, modern and cost-effective technical and structural approaches, industrialization and mechanization of construction works, better and better organization and provision with equipment of construction sites, provision of machines and installations on schedule and in the sequence requested by assembly units, provision of the work force, and so on.

The investment funds planned in 1983 must be focused only on completion of investment projects under construction and no agreement should be given for new work to units that have uncompleted investment projects.

Practice has shown that in the units where work has been done properly the investment projects put into operation provide a significant input into the units' incomes and the ensuring of self-financing and self-management, as achieved by the units mentioned above, that resort seldom to loans.

[Question] Regarding the private farms in the mountain and premountain areas, what does the bank plan to do in order to spur the economic activity in these areas, an activity which we expect to be focused on animal raising?

[Answer] As you know, the state supports the private farms in the mountain and premountain areas, by a number of agrozootechnical projects, financed under the budget, sanitary-veterinary assistance through specialists, provision of nursery material and selected seeds, and machines for performance of farming operations and other benefits. To contractors for animals and livestock products significant incentives are provided in terms of price, grain, and so forth.

Growers with private farms and cooperative members receive credits for procurement of draft and breeding animals and also for fruit-tree planting, animal-husbandry structures, storage facilities, purchase of specific farming equipment, land improvement projects, and the like. Moreover, the contractors for animal and plant products receive advance funds needed for their activities and these funds are paid back through delivery of products to the state fund.

[Question] However, some have turned into sellers of hay, a selling that is advantageous but involves profiteering, without raising their animals for sale any more, for their own use. For use, the "consumer cooperative" provides...

[Answer] In our opinion, for the purpose of encouraging animal raising on private farms it is necessary that all organs take urgent steps to determine the use of state available farm resources for animal raising, in order to stop the current state of affairs when many private farmers have given up raising animals and have turned, as you stated, into sellers of hay.

Moreover, an important matter involves changing the current position of some management bodies of agricultural cooperatives and state agricultural enterprises, of purchasing animals from the population to supplement livestock, instead of the opposite process, to the effect of their providing the population with high-yielding breeding stock and animals and fowls for fattening in the available spaces on farms. On this matter, we consider that not enough has been done and that the press has not sufficiently popularized this important cooperative economic activity.

[Question] In your opinion, what improvements can be made on current provisions regarding contractual relations between units in agriculture?

[Answer] By and large I consider that provisions on current contractual relations are adequate and provide the proper framework for the development of relationships based on economic principles for implementation of the new economic-financial mechanism. However, there are situations when the contractual obligations are not met by the grower, in terms of not striving to obtain products of quality and on schedule, or by the benefitting unit, where there are many cases, specifically for vegetable and fruit, when pickups are not on schedule and at the levels under the contracts. Practically, the recipient does not have any material liability.

The contractors for farm products, the major users of these products, are not yet taking action to provide the growers with quality seeds, with adequate technologies, and do not monitor the process of obtaining the output on the grower's farm.

We believe that there is the need for the greater involvement of farm product contracting units in the process of agricultural production, with direct responsibilities.

Furthermore, in line with the directives of the party leadership, of Nicolae Ceaușescu, at the work session on agricultural matters in Brasov, in January 1981, the bank organs also must be more involved in the activity of agricultural units, must supervise the efficiency of each leu invested in production by the units, so that each unit may self-finance most of the year, with the input of credit in financing production decreasing correspondingly. Practically, each unit should receive credits 3-4 months a year and finance its production from the incomes that it planned to obtain on a monthly basis. It is necessary to upgrade the contractual relations between combined fodder factories and agricultural units for raising and fattening animals, because deliveries are made on the basis of allocations and there is no identification as to the responsibilities of the combined fodder supplier units for the quality involved. This impacts on the management of the producer units.

All this would permit responsibility and reflection in the budget of each contracting unit of the result of their work and interest.

[Question] In your view, what stimulating provisions would help the implementation of the self-supply program?

[Answer] The law on remuneration of work in agricultural cooperative units provides for stimulating conditions for boosting production based on work under the contract contract system, a law that entitles to unlimited earnings depending on the quantity and quality of the work done, the production and incomes obtained, the

results obtained in reducing the costs of production and increase in economic efficiency.

Beginning in 1982, a very stimulating factor involved the participation of all the cooperative members in the system of supplemental remuneration in the form of profit sharing both within the framework of the plan and over and above the plan.

We estimate that under current laws the management bodies of units can encourage those cooperative members for increasing the units' incomes, by taking into the agricultural circuit all the lands located in barely accessible and nonmechanizable areas, that would be predominantly assigned to cooperative farmers that conclude contracts for animals, for periods of 2-3 years, from which, as prescribed by law, 50% of the production obtained on these areas should be assigned to them for animal husbandry. Assignment for a longer period of time will permit completion of soil improvement projects, use of natural fertilizers to increase the fertility of the lands. Moreover, we believe that the Ministry of Agriculture and Food Industry and the Ministry of Silviculture ought to issue provisions on the return to agriculture of places in woods and maintenance of young plantations where it is possible to grow vegetables and fodder, areas that should be assigned with priority to cooperative members who deliver animals and livestock products to the state fund.

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CSHC 2700-75

DECISIONS ON 1982, 1983 FUNDING OF UNDEVELOPED AREAS

Belgrade SLUZBENI LIST SFRJ in Serbo-Croatian No 13, 25 Mar 83 pp 304-306

[Text] On the basis of Article 19, Paragraph 1, Subsection (3) of the Law on the Federal Fund for Provision of Credit for More Rapid Development of the Economically Underdeveloped Republics and Autonomous Provinces ("Sluzbeni list SFRJ," No. 33/76 and 72/81), Article 10, and in connection with Article 17a of the Law on Permanent Resources of the Federal Fund for Provision of Credit for More Rapid Development of the Economically Underdeveloped Republics and Autonomous Provinces from 1981 to 1985 ("Sluzbeni list SFRJ," No. 74/80, 42/82, and 73/82), at its sixth session on 28 February 1983 the Assembly of the Federal Fund for Provision of Credit for More Rapid Development of the Economically Underdeveloped Republics and Autonomous Provinces adopted the following:

1. Section 1 of the Decision on Establishment of the Annual and Monthly Advances of Permanent Resources of the Federal Fund for Provision of Credit for More Rapid Development of the Economically Underdeveloped Republics and Autonomous Provinces for 1982 ("Sluzbeni list SFRJ," No. 31/82) is hereby amended to read as follows:

"The following are hereby set as the annual advance amounts of the permanent resources of the Federal Fund for Provision of Credit for More Rapid Development of the Economically Underdeveloped Republics and Autonomous Provinces:

<u>Republic or Auto-</u> <u>nomous Province</u>	<u>Annual Advance of Permanent Resources of Fund</u>	<u>Total</u>
According to Article 2 of Law on Permanent Resources of Federal Fund for Provision of Credit for More Rapid Development of the Economically Underdeveloped Republics and Autonomous Provinces from 1981 (1.83% of social product)	According to Article 17a of Law on Permanent Resources of Federal Fund for Provision of Credit for More Rapid Development of the Economically Underdeveloped Republics and Autonomous Provinces from 1981 to 1985 (0.03% of social product)	

Bosnia and Hercegovina	5,578.3	91.4	5,669.7
Montenegro	957.5	15.7	973.2
Croatia	11,847.6	194.2	12,041.8
Macedonia	2,347.9	38.5	2,386.4
Slovenia	6,936.5	113.7	7,050.2
Serbia, exclusive of territory of socialist autonomous provinces	11,289.4	185.1	11,474.5
Kosova	926.4	15.2	941.6
Vojvodina	4,423.1	72.5	4,495.6
Total	44,306.7	726.3	45,033.0

2. This decision will enter into effect on the eighth day following the date of its publication in the "Sluzbeni list SFRJ."

Belgrade, 28 February 1983

Assembly of the Federal Fund for Provision of Credit for More Rapid Development of the Economically Underdeveloped Republics and Autonomous Provinces

(signed:) Kline Corbe
Fund Director

(signed:) Mustafa Pljakic
Chairman

1. The resources of the interest-free loan of the Federal Fund for Provision of Credit for More Rapid Development of the Economically Underdeveloped Republics and Autonomous Provinces (hereinafter referred to as "the fund") which are secured by the republics and autonomous provinces pursuant to the first paragraph of Article 2 of the Law on Postponement of Payment of Annual Installments on Credit Granted to Associated Labor Organizations in the territory of the Socialist Autonomous Province of Kosovo out of the Resources of the Federal Fund for Provision of Credit for More Rapid Development of the Economically Underdeveloped Republics and Autonomous Provinces (hereinafter referred to as "the law") for 1983 are hereby determined as being in the amount of 2,352,793,000 dinars.

2. The resources as specified in the first Section of this Decision will be secured as shown below:

Republic or Autonomous Province	Dinars
Bosnia and Hercegovina	293,628,566
Montenegro	41,644,436
Croatia	642,312,489
Macedonia	135,756,156
Slovenia	412,209,334
Serbia, exclusive of territory of socialist autonomous provinces	538,789,597
Kosovo	44,232,509
Vojvodina	244,219,913
Total:	2,352,793,000

2. Pursuant to Article 1 of the Law on the Permanent Resources of the Federal Fund for Provision of Credit for More Rapid Development of the Economically Underdeveloped Republics and Autonomous Provinces from 1981 to 1983 (hereinafter referred to as "the Law"), the resources specified in Section 1 of this Decision will be formed as follows:

(1) 50 percent on the basis of self-managed pooling of labor and resources of associated labor organizations on income principles and on the basis of common interests;

(2) 50 percent on the basis of a compulsory loan paid by associated labor organizations which engage in economic activities (hereinafter referred to as "associated labor organizations"). The portion of resources based on self-managed pooling of labor and resources may, with the concurrence of the individual republics and autonomous provinces, be increased above the level of the percentage specified, the portion based on the compulsory loan being decreased by the corresponding amount. Pursuant to Article 5 of the Law, if in the course of a year self-management agreements are not concluded on pooling labor and resources in the amount of the obligations specified in Subsection (1) of Section 2 of this Decision, the republic or autonomous province will have the obligation of remitting the difference to the Fund in the form of a compulsory loan by the end of the year.

If a republic or autonomous province fails to discharge this obligation within a period of 30 days from the day on which the obligation falls due, the Social Accounting Service will, at the direction of the Federal Secretary for Finance, transfer the amount to the Fund from the budgetary resources of the particular republic or autonomous province.

3. Resources based on a compulsory loan, pursuant to Article 7 of the Law, will be paid by associated labor organizations in equal monthly advances by the twenty-fifth day of each month for the preceding month.

4. If the monthly advances of permanent resources of the Fund based on a compulsory loan in the course of a year in the territory of a republic or autonomous province fail to attain the amount specified in Subsection (2) of Section 1 of this decision, pursuant to the third paragraph of Article 10 of the Law, resources in the amount of the resulting difference will be secured by the republics or autonomous provinces.

5. This Decision will enter into effect on the eighth day following the date of its publication in the "Sluzbeni list SFRJ."

Belgrade, 28 February 1983

Seal of the Federal Fund for Provision of Credit for More Rapid Development of the Economically Underdeveloped Republics and Autonomous Provinces

(signed:) Kline Corbe
Fund Director

(signed:) Mustafa Pljakic
Chairman

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Tm: 400/110

ANALYST, PRICE OFFICIAL INTERVIEWED ON TRENDS

Professor Bajt Upbeat

Belgrade NEDELJNE INFORMATIVNE NOVINE in Serbo-Croatian No 1690, 22 May 83
pp 12-13

[Interview with Aleksander Bajt, Economics Institute of the School of Law of Ljubljana University, by Jug Grizelj: "Do We Know What We Want"; date and place not specified]

Text: The Economics Institute of the School of Law (EIPF) at Ljubljana University (also known as "Bajt's Institute" has every month since 1971 been preparing analyses of economic developments in Yugoslavia on the basis of its own research. The client: the Federal Executive Council. Manner of use: "for internal use" (but less and less). It is rightly felt that this is the only institution in Yugoslavia which is paid to sharply criticize the government and its moves. Although Bajt's institute is paid, then, "for its outspokenness" many people for that reason refer to the EIPF and Bajt as a "doctor in contrario"--doctor of opposition), Bajt's very sharp and intolerant assessments of the economic situation in Yugoslavia have evoked the anger of more than one of our prime ministers over the last 13 years. Nevertheless, the "doctor in contrario" continues to be paid regularly for scolding the government.

Just now, however, in its analysis and assessment of the condition of our economy Bajt's "loose and sharp tongue" unexpectedly took the side of the government, judging that the present situation in our economy can be regarded as satisfactory and "on the upper limits of objective possibility."

This assessment was the occasion for NIN to call upon Dr Aleksander Bajt, university professor, to explain his optimism at a time when favorable assessments of our economic development are rare to say the least.

Question: Professor Bajt, in the face of the general belief that inflation in the first quarter of this year is the highest in the last 10 years (there have been several public statements to that effect), you assert the opposite. Please explain your view!

Answer: In the last 3 years inflation measured in retail prices has been 77.6 percent on an annual basis, and within that figure 46.4 percent in 1981. Inflation in the first 3 months of this year was 31.2 percent if it is compared to the rise of prices in the first quarter of 1982, or 20 percent if we examine its current dynamic behavior, i.e., the growth of inflation within the first quarter of 1983 itself. Here there is no dispute, those are statistical figures. Since last September, when the current growth rate of retail prices reached 46.8 percent on an annual basis, it has been cut almost to half in the first quarter of this year. This is the result of the price freeze in the middle of last year. Had prices remained unfrozen, or if, as was done in the fall of 1981, there was a backing off from the freeze, the rise of prices would have been almost twice as great. Nor, then, is there any basis whatsoever for the assertions frequently repeated both in the news media and by certain official spokesmen--that the policy of the freeze has been unsuccessful.

This is in essence a correct policy in my opinion. It would be silly to suppose that we do not have comments to make on the way in which the strategy of loosening the reins on prices has been conducted; above all we feel that there will have to be another price rise for many "highly import-intensive" products such as petroleum products and certain others whose prices have been depressed for a long time, which will bring about a rise in the general price level, without which there can be no successful confinement of social expenditures to the limit set by what has been produced; but at the same time we feel that at this point to retreat from general price controls would be the most dangerous piece of recklessness I could imagine. I think that the rate of exchange of the dollar is today too bound up with prices on our domestic market for us to dare to allow ourselves such a step.

Question: Your "April Assessment" which says that we have in operation various particularist and other "lobbies" which consciously or unconsciously are worsening our situation as more difficult and unpromising than it is and that the greatest use is made of the news media for that purpose has encountered diverse comments from specialists and in political circles in particular.

Answer: I say that it is a general characteristic of our news media, the press, radio and television, to assess economic conditions and economic policy according to the standpoint of positions and distribution and consumption accepted in the past, wherein they display an inability to understand that it is not only possible to spend what we have not produced ourselves. It is quite clear that our standard of living is compared to the standard of incomparable more advanced countries, which is to overlook that it is absolutely impossible at our present rate of productivity to maintain even that standard of living which we achieved in the past by spending other people's money. If we are to overcome the danger of sliding into a society of solidarity in poverty, we need to be as clear and vigorous as possible in drawing the line between work and idleness as well as between those who create and those who spend and destroy.

For answer to last question the following needs to be clearly stated: for 1982-83 rate of interest which was negative in real terms has transferred an undue portion of the social income from the hands of those who created it

and saved it--the efficient parts of the economy and the population--into the hands of those incapable of covering their expenditure with their own production. This "was not a problem" at that time. Today when we want to change that relation and truly transfer decisionmaking on expenditure to the producer of what is to be spent, when we want to prevent appropriation of the product of others, this has all of a sudden become "a great social problem." I can understand the rebellion of those who are losing what does not belong to them, especially since their strength lies in words rather than in work, but it is difficult to understand why doing away with interest rates which are negative in real terms is being criticized even by those who pledge themselves to socialism, to distribution according to work, and so on. Is it possible that it is not clear that the system of negative real interest rates is a mechanism for systematic exploitation of the productive segments of society by segments which are unproductive, consumerist and parasitic? I think indeed that this is a threat to every one of our citizens: someone who borrows at an interest rate of 15 percent when inflation is 30 percent is in real terms not only not paying interest, but is every year paying off a 20-percent smaller principal!

Question: You say in your analysis that a great attack is now under way even on the pillars of differences in rates of exchange and the realistic rate of interest of the linear. Even certain business executives and economists and statisticians have come out against that course of policy.

Answer: There are all sorts of things behind that, including a false scientific rationalism. The main thing, however, is ignorance, unfamiliarity with the function of the realistic rate of exchange in the mechanism of foreign trade and maximization of economic growth, which is undoubtedly a consequence of the opinion that the realistic rate of exchange "benefits some and hurts others." That is the truth, but what kind of truth: the realistic rate of exchange benefits the able and worthy and hurts the inept. Unable to produce goods which sell on the world market can only gain from a realistic rate of exchange and lose from an unrealistic rate. Relations here are just the same as in relation to real interest rates.

Second, there is one reservation: in our system of linkage between individual enterprises and the national exports of every enterprise, even those whose production does not have comparative advantages and is relatively more expensive than in the world at large must export, in which case exports are possible only at a loss. This applies to the country as a whole, but also to those enterprises and producers. Since they are not uniformly distributed throughout the country, but are in certain parts of the country to a greater extent than in other parts, to a lesser extent, the opposition to the realistic rate of exchange, that is, to the obligation to export in order to cover international trade "deficits" takes on political dimensions in our context.

Third, I believe that the conflict does not lie in the realistic rate of exchange, but in the linkage itself and foreign exchange system. Instead of the one-way linkage which is now being attacked, might properly direct their attacks against a two-way linkage of foreign exchange systems, along the Yugoslav model, the Yugoslav model of foreign exchange system. In a mixed economy there are both export and import and there are predominantly export, and there are predominantly import and predominantly import areas.

Recently there has been increasingly frequent criticism to the effect that the policy of the realistic rate of exchange has been taken up before numerous prerequisites for its introduction were met. I agree with this, but in a very dialectical fashion. If the prerequisites referred to were met (and above all if prices were stabilized and the deficit in the balance of payments were eliminated), both the sliding of the dinar and discussion about the realistic rate of exchange would be unnecessary. Since none of those prerequisites have been met, regardless of why, the realistic rate of exchange remains the sole means of achieving more or less normal functioning of the economy. Should the entire economic policy fail, price policy, incomes policy, and also spending policy, the rate of exchange would be the sole and last means on which economic policy would have to rely. The realistic rate of exchange is not for economy policy the question of a formula for its computation, but a question of pure experience.

[Question:] In your April "letter to the government" you made a favorable assessment of production in recent months in Yugoslavia and asserted that the situation in that area is much better than it appears.

[Answer:] The main reason for our assessment that trends in production are satisfactory was not only its mild recovery and growth in the first quarter of 1983, but the very significant fact that production has essentially remained unchanged in spite of the reduction of imports. This was possible only with considerable substitution of imports by domestic production. Between 1974 and 1979 production rose 40 percent while imports remained unchanged in real terms. This in itself shows the large substitution efforts of the economy: since 1979, when because of the new price rise of petroleum imports had to drop in real terms (which is why by 1982 there was a real drop of 25 percent), production nevertheless continued to increase by 9 percent! That is a success. Under similar conditions the production of certain other countries in the world dropped drastically, and unemployment increased still more drastically. Brazil is the best example of that.

However, I have yet another reason for looking upon stagnant production as a success. Every growth of production that does not go entirely to exports, that is, that does not depend on expansion of industries which are import-poor, would mean continuation of unfavorable trends from the past, i.e., a further growth of spending over and above the product produced. The possibility of that kind of development (or domestic spending) in coming months, especially furthered by commodity and financial credits from abroad, is the greatest danger that threatens us. The argument that we should augment production if we want to increase exports seems very attractive. However, unless production is increased which is oriented in advance for export and covered by contract--that is, production which does not increase imports--then that production will inevitably be predominantly into domestic consumption. I view the present overall production results, then, as satisfactory precisely on the grounds which most other observers use in finding them unsatisfactory.

[Question:] You say in your assessment that the public is getting the impression that "the government does not know what it is doing." However, you assert that the measures of that government, after several years, are mainly

has referred, its arguments being taken over by our own press in what I would call uncritical fashion, that cooperation was explicitly one-way, detrimental to us and of benefit to our neighbors. In that exchange of our cultural, family and other sociopolitical relations were on the margin, and in addition these relations were not the reason why our neighbors were upset. These relations can be resolved satisfactorily without doing away with the deposit, by undertaking appropriate modifications.

But that does not mean that I have ever come out in favor of the deposit. This measure should be replaced by other measures as soon as conditions are created for that, and that measures which will facilitate more effective control of private importation of goods. A realistic rate of exchange, strengthened customs control, equalization of the rights of all citizens, as well as stabilization of customs regulations (privileges cannot be changed overnight) will also be able to normalize this area. I cannot understand, however, how even high-level political forums can overlook to such an extent the predominantly economic character of introducing the deposit and thereby show such a lack of understanding of our overall economic situation, seeing the deposit only in terms of its secondary negative effects.

Question: Explain your view to the effect that a false solidarity is the greatest open wound in the way our economic activity is conducted and that socialization of losses has destroyed the system of valuation and responsibility.

Answer: The matter is rather clear: at the microeconomic level there is a need to create an organization of work which will safeguard the level of utilization of existing capital and capacity, doubling its present level. Personal income should be strictly related to real labor productivity, without a lower limit, that is, even without minimum guaranteed personal incomes, so that workers who are not able to achieve the productivity allowed by up-to-date equipment, would be forced in their own interest to abandon OUR's [basic organization of associated labor] in which they cannot realize their abilities. Solidarity is indispensable, but except for altogether personal solidarity, all other forms of solidarity should be transferred to the level of sociopolitical communities.

Question: In the face of some other public statements of both the trade unions and other political structures, we are surprised by your [original] trade union's assessment that personal incomes policy is at the moment the greatest threat to socialization. Please explain this to us!

Answer: Personal incomes are a variable which economic policy, in spite of all the agreements, is better to say, precisely because of all those agreements, is unable to master with a sufficient degree of objectivity and confidence. The linkage of personal incomes to the income of the OUR is not a system which promotes the dependence of personal incomes on the results of work, but a system for distribution of inflation. If an individual entity in that system is to be successful, that is, if the distribution of inflation is not to hurt his real income, he must constantly raise his prices (for services, work, etc.) and that as fast as possible, since the concrete rate of inflation, and the relative to the actual distribution, is known only

"tatter the facts." Even when price rises are very large, that is, there is a danger of finding out that those increases were not high enough. In such a situation one cannot expect more optimum behavior.

The system of personal incomes, in my opinion, should be organized so that at the microeconomic level it will be completely independent of inflation, that is, independent of a quantity which will be known only later, which is why in the present situation the economy must adapt in advance. At the level of basic organizations of associated labor strict linkage has to be achieved between personal incomes and real productivity, and then it is a matter for economic policy to carry out adaptation for the higher cost of living. We might call this two-channel formation of personal incomes.

[Question] Your next assessment is that the public is unsparing in its assessments of all the price rises that have occurred in our country, and that every price rise is accompanied by ironic remarks about the ineffectiveness of the government, which is constantly referring to adjustment of personal incomes to price rises. Tell us your arguments against that kind of adjustment.

[Answer] If the income of entities increases over and above the product produced, that is, if economic policy is unable to restrict the volume of income in proportion to the volume of the social product, the rise of prices is the only weapon remaining to economic policy to bring spending within the limits of the product and production. In such cases, very often in countries with undifferentiated private production, the rise of prices has to be regarded as one of the most important levers of economic policy. That kind of policy is especially suitable in cases when major changes are to be carried out in relative prices. For example, because of a drop in the value of the domestic currency. By one and the same means, the differentiated rise of prices, two goals are achieved. This kind of policy would have stronger support if all those carrying out such a policy were to see that function of prices. It is in this area that there has also been the greatest lack of understanding, since people do not realize that in a case of failure in the income field, a rise of prices is inevitable and unavoidable and subject to law. This is evident from the fact that maintaining a certain price level or rising prices are traditionally posed as a central planning task instead of the rise of prices or a certain price level being regarded as an effective means of economic policy, and that as a stabilization policy, whose ultimate goal must specifically be a stable price. At this point it really is easy to see the dialectics.

[Question] Many bankers are agreed in their assessment that differences in prices of exchange mean "death to our finances," and high rates of interest a threat to economic development. You assert the opposite.

[Answer] Every innovation, especially when it is a question of revolutionizing conceptions which have been deeply rooted for decades, requires adaptation time. Our bankers haven't learned their trade in administrative socialism, where they became accustomed to free use of the funds of the economy and the distribution of the funds of individuals with practically no payment. Viewed in that sense, in the accumulation of capital the bankers took over huge resources of society, originally from those who had created them, if not exactly

we focus not its productive segment, but the political structures of society.

The managerialist campaign in the early seventies, whose purpose was to free associated labor of subjugation by elites which have become evident within it itself, transferred the political power of associated labor which arose at that time and which was unfortunately concentrated in technocratic structures, to parallel, i.e., at the same level, political structures. This did not help to make associated labor independent or to deepen and strengthen self-management on the social plane, which was its aim, but rather favored formation of centers of political power outside associated labor and outside the managerial hierarchy.

This formation took two directions. One went in the direction of usurpation of social decision-making, including economic decisions, both at the level of administrative communities as well as within associated labor itself, by centers of political power. Associated labor became dependent on political structures instead of its own managers. The basic economic decisions, and above all those concerning investment projects, were made outside associated labor, in the political domain, which is not even to mention the decisions concerning the social product was spent for nonproduction purposes.

The second direction in the formation of centers of "self-management" political organization was verticality. This was a process whereby lower-level, local administrative and regional political structures became independent of the immediate higher structures and ultimately the central structures. In a country with large economic, cultural, ethnic and other differences, this process was inevitable. The lower-level political structures acquired political independence and the formation of local "polities" based on identification of local interests, needs, and the different, as principles for local integration. It is undeniable, then, that particular interests began to express themselves more and more strongly and bit by bit became predominant in the formation of local conflicts, relieving superiority in the economic sphere. The development of the country as a whole and in national unity was thus endangered.

As a result of this process, we have today a large number of partial centers of power, a large number of differing views as to social priorities, and a large number of more marked nuclei of differing economic views. This is a very serious situation. Perhaps I exaggerate, especially when I say that the situation is serious, but I do not exaggerate if we are talking about a country which has become evident. Evaluation as a line of development of the political system has degenerated into political, economic, and social chaos.

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time. In our case the decision on the price freeze was not sufficiently supported by other economic policy measures that would have brought demand (consumption) into line with the production and supply of goods. It is understandable, then, that it could not yield the desired effects. The rise of prices in the period the decision has been in effect has been markedly high. Producer prices this April, compared to last July, that is, during the time of the "freeze," are up 16 percent, and retail prices 23 percent, the cost of living 25 percent, including a 28-percent rise of food costs. This is a marked rise of prices under those conditions. I cannot agree with Professor Bajt that the price rises so far this year can be regarded as a success of economic policy. It would be better not to deceive ourselves.

To be sure, about 50 percent of that price increase is the result of conscious decisions to compensate certain branches for import costs based on the one-time devaluation of the dinar in October, and then in order to correct certain disparities in primary distribution (fuel and power industry, rail transportation, agriculture, ferrous metallurgy, etc.). About 50 percent of the price rises are "illegal"--unlawful.

However, I do not view inflation solely from that standpoint. Under the conditions of the stagnation of production, when the entire growth of income is formed from prices rather than from a real growth of the social product, and when these prices are administratively distributed at the federal level, then inflation under our complicated relations in the Federation as a multinational community becomes a sensitive political issue. I have become thoroughly convinced of this in the short time of my work specifically devoted to these problems. We must fight for more stable prices, more stable and economically justified relations in primary distribution, and the stable dinar as the sole measure of value in relations among commodity producers. Otherwise our system cannot function successfully. As soon as we carry out a distribution of income, by branches and regions, through frozen prices and by raising them by virtue of decisions at the federal level, we are creating potential conditions for a complication of relations in the Federation and in associated labor. It is through that prism that I evaluate inflation and the problems of the constant depreciation of the dinar. When the rate of inflation is high, there can be no question of the motivation for pooling, nor can the provisions of the Law on Associated Labor concerning joint revenues and income be implemented.

The Easiest Way Out--Higher Prices

[Question] You take a negative view, then, of that decision to freeze prices?

[Answer] Not altogether. Had it not been for that decision, the rate of inflation in this period would probably have been higher. But we must be aware that all prices cannot be held under control. For example, in the farmers' market there can be no effective form of social price control, nor can there be in a number of industrial branches such as, say, the textile industry or the footwear industry, furniture, clothing accessories and the like. There are countless legal ways of getting around it. For instance, industry has been resourceful in using what are referred to as new products: If the price

of one article has been frozen, insignificant changes are made in it, and it is launched on the market as a new product, with, of course, a new and higher price. In the textile industry, for example, in the period since prices were frozen, tens of thousands of new products have been announced. Or, in the metal manufacturing industry, whose prices rose 14.7 percent in the period the decision has been in effect, the increase in the industry of leather footwear and clothing accessories has been 19.5 percent, the increase for finished textile products 11.1 percent, the increase for leather and fur 22.6 percent, and so on. In all those industries prices could not be increased under the decision, since they were formally frozen, and almost all of these price rises have been justified by so-called new products or special sales conditions. To control all that we would need an army of new civil servants.

[Question] Does this mean that only the prices of raw materials and certain basic products can be effectively controlled? Hasn't the basic aim of the freeze been missed thereby?

[Answer] The truth, to be sure, is that in the time the decision on general price controls has been in effect certain previous disparities were corrected, for example, in ferrous metallurgy, the fuel and power industry, and transportation; but if we take all the price rises in that period and if we analyze them in a bit more detail, we can easily conclude that the gap in prices between the primary production sector and the manufacturing industry has widened with respect to certain products and industries.

[Question] The period of the price freeze is after all coming to an end. How will we emerge from it? Will the free setting of prices initiate a new wave of inflation?

[Answer] I am deeply convinced that we must abandon this kind of strict price control regime as soon as possible, since in essence it does not yield results. We might rather say that it deepens the disturbances and disproportions that exist in the economy.

Our economy, however, is today cruelly confronted with certain problems which people have been pointing to for years, but which have not been sufficiently reacted to either in associated labor or in the measures of economic policy. I am thinking above all of high costs, not only in production, but also in social overhead, in what we refer to as general [government] and community [social service] expenditure. This kind of economy with this kind of productivity is unable to finance from its own surplus labor the high level of that expenditure, is unable to cover this scale of investment and cannot furnish the resources for the very high costs in associated labor which are not production costs. The administration is huge in our enterprises. Up to now we have been covering this by borrowing abroad and through the savings of individuals within the country.

In the difficult situation in which we have found ourselves it could happen that the economy, under the pressure of all these troubles, seeks what for the moment is the easiest way out, which is to raise prices. The very idea that all these difficulties can be dealt with by raising prices is unrealistic. No

ne can improve his position in the long run through prices, without adopting an orientation toward more productive work and saving.

[Question] For years people have indicated, spoken about and pointed their finger at excessive spending. Can all that have been in vain?

[Answer] Tell me, please, how much spending and employment have been reduced in the noneconomic sphere? Indeed, has there been any reduction? In the banks, the SIZ's [self-managing community of interest], the government administration, and so on, the number of officeworkers has not been dropping either. On the contrary, it has been increasing. How much reduction has there been of expenditures for certain nonproduction purposes which society could do without? Just look at how much time is spent in various meetings attended by hundreds of participants.

Again in the first quarter of this year expenditures for government and social services have been increasing: to be sure, somewhat slower than previously, but much faster in view of the fact that production is staying at the same level.

The Risk of Uncontrolled Inflation

[Question] To sum up: we spend unwisely, we invest mistakenly, we have large losses, the dinar is weak and its value is dropping steadily.... In view of all that what should we expect from the decision on freer setting of prices?

[Answer] The situation is indeed difficult. We have seen what kind of results the freeze has brought so far. Prices rise even under those conditions. To be sure, there is a danger of a larger price increase when the decision expires. In the present situation prices are rising, and production is dropping. This is the worst situation, one which does not open up any prospects whatsoever for resolving our problems. We must do everything to invigorate production even at the cost of a somewhat larger rise of prices. To be sure, we dare not expose ourselves to the risk of uncontrolled inflation, which would result in depreciation of the dinar, but we must also avoid the still greater risk of the fateful consequences of a drop of production. I do not agree with Professor Bajt that our production is at the upper limit of capability. I think that we have conditions for considerably increasing production if we make a larger turn toward domestic raw materials and energy, agriculture, development of small business, etc. In my opinion, our production is at the lower limit of our real human and physical potential. If we should support the invigoration of certain forms of that potential with prices as well, and if we should choose between the two evils, then I favor a somewhat higher rate of inflation accompanied by a growth of production more than I favor inflation and stagnation of production at the same time.

In any case we must be cautious in making our way out of the decision. That is why we do not intend to turn the emergence from the freeze into a complete liberalization of prices. At this point there can be no question of that.

We intend to stay with all the forms of direct price control envisaged by the law. This means that products which have essential importance to the overall price level, the costs of reproduction and the costs of living will continue to be under strict price ceiling regimes, that is, certification (approval) of price lists. Price communities will carry out a milder form of price control by monitoring prices, along with the obligation of basic organizations of associated labor to submit price lists in advance to the competent communities, which will evaluate them, and if they find that prices are being raised unjustifiably, they will take the measures envisaged by law. A 30-day period has been proposed, and only after that can prices be raised if the competent price communities do not react in the meantime.

[Question] Will there be truly free prices, market prices?

[Answer] Yes, market prices will be formed for certain products which do not have essential influence on the costs of reproduction and the standard of living. Such products include, say, gold jewelry, alcoholic beverages, and the like. Prices are formed freely for certain farm products which are not essential to the standard of living and which are in short supply today, so that equilibrium might be established between supply and demand by means of market prices.

There is a danger that when the decision on the freeze expires everyone will immediately begin to seek higher prices. We have spoken about how the economy is pressed by high costs, and this will certainly result in attempts to pass all this on to the price, as has happened previously. Yet we are counting on the economy to realize the situation in which we have found ourselves and are assuming that sensible behavior will prevail, based above all on self-interest. No one would correct his financial situation by a very rapid and general price rise, but rather all the effects of the price rise would be quickly destroyed by a wave of inflation. That is why we must count on sober and responsible behavior in the economy.

[Question] In the last issue of NIN Professor Aleksander Bajt spoke about the favorable aspects of the decision on the price rise and proposed that we do not give up that decision without careful thought.

[Answer] Well, we are not actually renouncing price control, but I am convinced that if such a decision setting feelings on all prices were to be retained, it would in future have counterproductive effects. Extending the validity of the decision on the freeze would not prevent new price rises if nothing is done in other sectors of economic policy, which Professor Bajt indeed spoke about, and that means above all that we stop spending more than we are creating, and that in all forms of expenditure.

Countless Rates of Exchange

We must also influence prices with other measures of economic policy.

Let us look, for example, at the rate of exchange of the dinar. In this situation, in the practical implementation of the policy of the realistic rate of

exchange, we must make it possible for a stable rate of exchange of the dinar to be maintained for that production for which there is no substitute in the country (petroleum, gas, means of production for making fertilizer, cotton, steel), which amounts to half of imports of production supplies, since the import costs for those products are directly passed on to the prices under conditions of low accumulation in the economy. The variable rate of exchange constantly increases import costs, especially if importing is done on credit, and after a time large differences in rate of exchange are paid. This kind of exchange rate policy is obviously a direct source of domestic inflation. I think that with respect to those imported products we must defend the rate of exchange with those means which are incidentally used by other countries with a market economy, or hold the rate of exchange stable for those products, or subsidize those imports. Kardelj referred to this as "crutches" in exchange rate policy.

[Question] That would be some kind of double rate of exchange.

[Answer] I would not say so. Even today we have countless rates of exchange, and we must constantly adjust them. A more stable rate for certain vital products whose export is inelastic and for which the volume of imports does not depend on the price and level of the import rate of exchange of the dinar would make it possible to stabilize domestic prices. What do we have today?

Through the daily depreciation we are making imports more expensive even for those goods without which the process of reproduction cannot be imagined, since there is no substitute for them in the country. We are thereby increasing production costs. That makes our exports uncompetitive, and again we carry out a devaluation in order to stimulate exports, and this is one of the important generators of inflation.

Two months ago, for example, we raised the prices of petroleum. At that time we calculated that the refineries would again show a loss when the rate of exchange of the dollar reached 84-85 dinars. Now we are already close to that rate of exchange, and petroleum will have to go up once again. If we want to hold the price of petroleum, we must stabilize the rate of exchange for the importation of petroleum. There is no other way. I agree that refining costs are high because refinery capacities were built unwisely.

[Question] And a rise in the price of gasoline.

[Answer] I am not sure that that is the right way.

[Question] Professor Bajt thinks that it is.

[Answer] I think that it isn't. Our gasoline consumption is at the lower limit, we are no longer able to greatly reduce general consumption, and we are at the lower limit in transportation, agriculture, and so on. We can no longer reduce that consumption by raising prices without the risk of obstructing the process of reproduction. I agree that consumption of residual fuel oil is excessive in the country, and if we reduced consumption of that fuel by 2 million tons and replaced it with domestic coal, turning the petroleum into primary gasoline and motor fuel, we would have no need for either ration

coupons or other restrictions. Petrochemical plants using primary gasoline would operate at full capacity and we could augment the production of petrochemicals by 15-20 percent. We would thereby eliminate many shortages of production supplies on the market. But our policy in this sector has obviously been unsuccessful.

Decisionmaking on Someone Else's Resources

[Question] In your opinion should interest rates also be lower?

[Answer] We should not be talking about higher or lower rates of interest. Let us first look at the size of our economy's debt. Almost all large facilities, precisely because they are mainly new, have been built with credit. It is not possible to withstand those interest rates when they are applied to that much debt. We have to thoroughly reform the credit and monetary system, in which the basic thing would be to reduce credit relations and the economy's indebtedness. This is a complicated operation. Credit must be a supplemental source in the business assets of the economy, and a normal economic rate of interest should be paid on those funds.

A portion of those credits were created from primary note issue, which we have all paid for through inflation, and I think that those resources should be passed on to the economy, along with all bank resources which do not come from directly identified depositors. Credit relations would be reduced in that way, the economy would have more resources of its own to dispose of, resources which in the final analysis it itself created. Only in this way would we alter behavior in the taking of credit. Today the economy is resistant to interest rates. If the taking of credit is the only way of obtaining resources, no one thinks of the price at which money is being borrowed, since borrowing is a necessity, and the interest rate no longer has its normal economic function of exerting pressure for optimum and sensible borrowing.

This would be an entire reform in one sector if it had favorable effects on the development of self-management and on the workers' taking control of social reproduction. In self-management, that is, decisions cannot be made on someone else's resources. If we truly want to make a realistic interest rate an effective economic instrument, we have to make radical changes in credit and monetary policy and reduce the economy's dependence on the banks and on credit. If we go on in the old way and continue to pile up the problems, that boil will also come to a head one day in the form of general illiquidity and the economy's inability to pay back loans which often it is taking now in order to pay interest.

[Question] To what extent are the communities for price affairs, one of which you head, truly self-managing institutions? How do they operate, what kind of decisions do they make?

[Answer] The price communities were conceived as specific self-managing and governmental institutions which have powers in monitoring and controlling prices. The governing bodies of the communities have a mixed membership. The council of the federal community has 43 members, 25 of them from the economy,

7 members delegated by the Federal Executive Council, 8 by the executive councils of the republics and provinces, each of which has 1 representative, and then there is one representative of the trade unions and 1 of the Socialist Alliance.

During the period of the price freeze the communities concerned themselves primarily with administrative measures. Group-ownership interests, representing industries and regions, were manifested here. The economy itself is organized on the sectoral principle, which in practice means that the possibility is not precluded of the sectoral approach in resolving sensitive issues such as price adjustments. The longer administrative price controls last, the more time it will take for the communities to organize themselves on the principles of self-management.

The communities for price affairs can function in the spirit of self-management only under the conditions of at least minimal functioning of the market. Appropriate changes are also needed in the Law on Prices, which ought to create more room for concluding self-management agreements on prices, but on the basis of market criteria. Instead of administrative concerns and haggling about prices, the price communities have to be more concerned with the problems of the causes of inflation. Prices are nothing other than a picture of the situation in the economy.

Mistaken Investment Projects

[Question] The setting of prices on the market presupposes a growth of supply, larger production.

[Answer] When it comes to increasing production there is no hesitation--we have to rely more on our own resources. But we must be realistic in this. Both in price policy, that is, in primary distribution, and also in other sectors, we have taken a niggardly attitude toward domestic raw materials, especially toward domestic agriculture and domestic scientific potential and personnel.

[Question] Do we have raw materials? Is it not true that some of the largest plants have failed precisely because we did not have enough raw materials or because their quality was poor?

[Answer] We should not confuse certain mistaken investment projects (for example, Obrovac) with our real capabilities. Let us look at some of the facts. For Yugoslavia's metal-manufacturing industry, which is fairly advanced and has a share of about 40 percent in our exports, one of the basic problems is steel and nonferrous metals. We import 3 million tons of metal either in the form of ore, semifinished products, or finished steel products or scrap iron. We are almost the largest net importer of steel in Europe. We have enough ore, but we have not been investing in the mines, while at the same time we spend very large funds to import iron ore and steel. Much the same is true in production of nonferrous metals. The ores of nonferrous metals, to be sure, are poor, but we do have them, even if they are poor in metal, and in any social account (employment of domestic workers and domestic machinebuilding in

building mining and metallurgical facilities, and so on), and especially from the standpoint of the balance of payments, domestic production of metal must be cheaper from the standpoint of society than imported steel, copper and aluminum.

To go on, we are importing, for example, almost 800,000 cubic meters of pulpwood, while in our forests considerably more than that goes to waste.

[Question] How do you explain that? No large investments are necessary to cut timber.

[Answer] Large investments are necessary, but they are worth it. Those forests have to be reached, roads have to be built, but there are others who need them as well. Nowhere do forests grow on asphalt. How are we to explain that we as a developing country which has more than 800,000 unemployed cannot exploit our own forests, but we have to import from the industrially advanced countries?!

The Peasant Is a Strong Partner

Further, we are a country which has all the conditions for large production of food, and yet we are among the importers of foodstuffs. As you know, the conclusion was reached in the Commission of Federal Councils that we dare not treat agriculture any longer as a supply sector, that agriculture should be a production sector doing business on economic principles. Here our situation is specific. The private sector is strong. We have to finally understand that the peasant is an economic partner and to free ourselves of ideological and doctrinal bias in our view of rural affairs. The peasant is today a very strong partner who possesses 350,000 tractors, a large number of agricultural machines and 85 percent of the farmland, structures for raising livestock and production of meat, and so on. Even though there are fewer and fewer young people in rural areas, and the question is why, that kind of situation will persist for a long time. We have to honor those facts, we must realize that the peasant has his own economic logic, his own price policy; that means that we must free ourselves of the prescription of prices and other coercive measures. The peasant should be treated and encouraged as a producer for the market, and the government must behave correctly, must facilitate his advancement, the rise of his standard of living, and so on. For all the stories about how the peasant has money, is living well, none of us who comes from rural areas is willing to guide his children back into farming. For example, we prescribe the producer's sales price which we also regard as the purchase price of corn at 10.30 dinars, and it is well known that this is not realistic under present conditions and that corn is sold on the market at 13 and 14 dinars. Would it not be better to buy up the surpluses of corn at the price regulated by the market, and then export a portion of that corn, create reserves and guarantee stability of the market with those reserves? We need to have as soon as possible a program for producing 15 million tons of corn, which is quite possible, and in a relatively short time export 5 million tons. With those funds we would make it possible to import more than 3 million tons of petroleum. Now, you calculate whether it is more profitable to society to undertake what is required for us to produce those 5 million tons of corn for

export and thereby pay for petroleum or for us to go into debt to obtain production supplies to produce for export and in that way earn the foreign exchange to pay for imports of petroleum.

[Question] Yet aren't the prices of farm products in our country higher than on the world market?

[Answer] In the case of farm products it is difficult and almost impossible to speak about a world price. Every country has its own farm policy and its own price policy in agriculture. For all countries, especially the advanced countries, this is the number one strategic issue. No one plays around with feeding the population as a condition of life. Let us recall how much Tito worried about that. Consequently, it is not possible here to make a simple comparison of the domestic price and the export-import price. If we compare at the present rate of exchange of the dinar our purchase prices of wheat and indeed even the market prices of corn, they are lower than import prices. The wheat which we purchase on credit will be still more expensive at the moment when we repay the credit.

Importing farm products cannot be an alternative to domestic production. In our situation we dare not even think about importing food. This would mean that we are readier to pay for the subsidies granted abroad to agriculture than to use the same resources to stimulate our own farmers. We have to be thinking much more about the volume of farm products we are exporting, even with subsidies, rather than how much we are importing.

[Question] The community has made a projection of price rises in 1983. There were objections to that projection, some of them quite severe, both in your council and later in the press. It is objected that this amounts to distribution of prices and income in an administrative way. What can you tell us about that?

[Answer] Yes, that projection was made on the basis of the Agreement on Implementing Price Policy in 1983. The agreement was signed by the Federal Executive Council and the executive councils of the republics and provinces, the federal and republic and provincial economic chambers, and the federal and republic and provincial price communities. In view of the sensitivity of the problem, four studies done by scientific institutes were prepared as the basis for preparing the projection. Differing methodologies were used, but the basic messages contained in those studies were identical. They were briefly as follows: relations in primary distribution have been disrupted, relations of domestic and export-import prices have been disrupted (for some products domestic prices are considerably higher, and for some considerably lower than export-import prices), prices of the same product differ widely on the domestic market, which is the result of regional monopolies, and so on).

How Much Do Imports Cost

On the basis of these studies a projection was made for analytical and documentary purposes, as well as a source of information, and it was supposed to serve as a general framework for price policy. The resolution which we all

accepted envisaged as the main goals of price policy this year that the rate of inflation would be lower than last year and that the process would begin of changing and eliminating disparities in primary distribution. This can be achieved only by a deliberate and very selective price policy. The goals set forth in the resolution were the point of departure in that projection. The conditions are such that a certain rise of prices is inevitable in all branches and groupings. There is no branch that would be able to compensate all the cost pressures this year with its internal reserves. That is reality. That is why the projection assumes that in certain branches prices would rise about 11 percent, in certain manufacturing branches up to about 35 percent (ferrous metallurgy, the electric power industry, rail transportation). The cost principal was not applied here, since all would have to offset a portion of costs through higher efficiency, reduction of costs and saving. The measures of economic policy outlined along with that document should guarantee improvement of the position of producers of raw materials, energy, food and rail transport.

I know that this will encounter the resistance of the manufacturing segment of our industry, which is sizable, but it must realize that there is no longer any inexpensive steel, copper, aluminum, zinc, lead or energy. All of these products are today cheaper in the primary phases within the country than the import prices if we calculate how much those imports actually cost us as a society. Consequently, let our manufacturing industry turn inward upon itself, toward its own technical and technological development, its own designs, and let it rely less on technology obtained through licenses.

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